SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1956

No. 11

UNITED STATES GYPSUM COMPANY, APPELLANT,

vs.

NATIONAL GYPSUM COMPANY, ET AL.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

VOL. I

INDEX

	Original	Print
Record from the United States District Court for the District of Columbia	1	1
Mandate of Supreme Court of the United States filed in the United States District Court for the District of Columbia—April 10, 1948	1	1
Order on mandate	5	2
Reporter's transcript of proceedings of conference of June 8, 1948	6	3
Appearances	7	4
Opening statement on behalf of plaintiff (Mr. Steffen)	8	5
Statement on behalf of defendants (Mr. Bromley)	11	7
Further statement on behalf of plaintiff (Mr. Steffen)	20	13
Further statement on behalf of defendants (Mr. Bromley)	30	19

JUDD & DETWEILER (INC.), PRINTERS, WASHINGTON, D. C., JULY 18, 1956

—317-8

Record from the United States District Court for the District of Columbia—Continued	Original	Print
Plaintiff's motion for summary judgment	55	35
Defendants', U.S. Gypsum Co., et al., offer of proof	56	36
Offer of proof by the defendant, The Celotex Corporation	79	52
Reporter's transcript of hearing on motion for summary judgment—June 29, 1948	82	54
Appearances	83	55
Opening argument on behalf of the plaintiff (Mr. Steffen)	92	58
Argument on behalf of the defendants (Mr. Bromley)	149	94
Closing argument on behalf of the plaintiff (Mr. Steffen)	193	122
Oral ruling on motion for summary judgment	216	137
Reporter's transcript of conference of July 30, 1948	225	143
Appearances	226	143
Proceedings on proposed interlocutory order	227	144
Plaintiff's proposed decree	249	157
Extracts from memorandum in opposition to plaintiff's proposed decree, findings and conclusions	265	166
Objections of defendant, Certain-teed Products Corporation, to plaintiff's proposed findings of fact and conclusions of law	295	194
Objections of defendant, Certain-teed Products Corporation, in opposition to plaintiff's proposed decree	297	195
Memorandum submitted on behalf of defendants, Newark Plaster Company and Frederick Tomkins, on the form of the findings, conclusions and decree to be entered	299	196
Memorandum of defendants, National Gypsum Company and Melvin H. Baker, in opposition to plaintiff's proposed findings, conclusions and decree	302	197
Objections of defendant, The Celotex Corporation, in opposition to plaintiff's proposed findings of fact, conclusions of law and decree	318	207
Memorandum of defendant, Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company, in response to the proposed findings, conclusions and decree submitted by plaintiff	319	208
Memorandum of defendants, Ebsary Gypsum Company, Inc., and Frederick G. Ebsary, in opposition to plaintiff's proposed findings, conclusions and decree	321	208

	Original	Print
Record from the United States District Court for the District of Columbia—Continued		
Reporter's transcript of hearing on proposed findings of fact, etc.—June 13, 1949	326	211
Appearances	327	211
Opening argument on behalf of the plaintiff (Mr. Knuff)	329	213
Argument on behalf of the defendants (Mr. Connelly)	442	286
Reporter's transcript of hearing of June 14, 1949	490	314
Argument on behalf of defendants, United States Gypsum Company, Sewell L. Avery and Oliver M. Knode—resumed—(Mr. Connelly)	491	315
Argument on behalf of defendant, National Gypsum Company (Mr. Finck)	537	344
Argument on behalf of defendant, Certain-teed Products Corporation (Mr. Miller)	564	361
Argument on behalf of defendant The Celotex Corporation (Mr. Dallstream)	569	365
Argument on behalf of defendant Ebsary Gypsum Company and Frederick G. Ebsary (Mr. Rippey)	589	377
Argument on behalf of defendant, Samuel M. Gloyd (Mr. Johnston)	595	381
Argument on behalf of defendant, Newark Plaster Company (Mr. DeWitt)	600	384
Further argument on behalf of defendants, United States Gypsum Company, Sewell L. Avery and Oliver M. Knode (Mr. Connelly)	613	393
Closing argument on behalf of the plaintiff (Mr. Knuff)	626	401
Memorandum of defendant, Newark Plaster Company	664	424
Supplemental memorandum of defendants, National Gypsum Company and Melvin H. Baker	672	430
Reply memorandum of United States Gypsum Company	677	433
Final draft of license agreements submitted on behalf of United States Gypsum Company	696	447
Preliminary statement and decree	728	471
Opinion on motion for summary judgment, Stephens, J.	736	478
License agreements—November 7, 1949	739	481
Petition for appeal of United States Gypsum Company, et al., filed January 6, 1950	769	504
Order allowing appeal of United States Gypsum Company, et al.	770	504
Assignment of errors by United States Gypsum Company, et al.	772	505

Record from the United States District Court for the District of Columbia—Continued	Original	Print
Order allowing appeal of United States—January 6, 1950	777	509
Assignment of errors by United States	778	509
Mandate of Supreme Court of the United States of July 18, 1950, dismissing appeal of United States Gypsum Co.	781	512
Mandate of Supreme Court of the United States of January 3, 1951 on appeal of United States	785	513
Plaintiff's proposed final judgment	788	515
Preliminary statement and suggested form of revised decree as filed by United States Gypsum Company	797	523
Preliminary statement and suggested form of revised decree as filed by National Gypsum Company	828	546
Preliminary statement and suggested form of revised decree as filed by Certain-teed Products Corporation	838	553
Preliminary statement and final decree	851	562
Reporter's transcript of hearings of May 15, 1951 on proposed final decree	869	576
Appearances	870	576
Colloquy between Court and counsel	871	577
Petition of National Gypsum Company for orders, modifications or directions for the enforcement, construction or carrying out of the final decree of May 15, 1951	912	604
Exhibit "A"—Complaint filed in USDC, Northern Iowa in United States Gypsum Co. v. National Gypsum Co.	926	614
Exhibit "B"—Complaint filed in USDC, Southern New York, in United States Gypsum Co. v. Ebsary Gypsum Co., Inc.	936	622
Exhibit "C"—Complaint filed in USDC, New Jersey, in United States Gypsum Co. v. Newark Plaster Co.	949	634
Exhibit "D"—Complaint filed in USDC, Northern Iowa, in United States Gypsum Co. v. Certain-teed Products Corp.	963	646
Exhibit "E"—Correspondence	973	655
Petition of Certain-teed Products Corporation for enforcement of compliance with final decree of May 15, 1951	976	657
Petition of Newark Plaster Company for orders, modifications, or directions for the enforcement, construction or carrying out of the final decree of May 15, 1951	999	666
Order appointing Judge William P. Cole, Jr., as a member of the Court in place of Judge Joseph R. Jackson	1005	669

	Original	Print
Record from the United States District Court for the District of Columbia—Continued		
Petition of Ebsary Gypsum Company, Inc., for orders, modifications, or directions for the enforcement, construction or carrying out of final decree of May 15, 1951	1005a	669

VOL. II

Reporter's transcript of prehearing conference of June 9, 1953	1006	673
Appearances	1006	673
Colloquy between Court and counsel	1008	674
Amended answer of National Gypsum Co., filed in USDC, Northern Iowa, in United States Gypsum Company v. National Gypsum Company	1065	710
Answer of Certain-teed Products Corporation filed in USDC, Northern Iowa, in United States Gypsum Company v. Certain-teed Products Corporation	1083	725
Petition of United States for orders or directions for the construction, carrying out or enforcement of the final decree of May 15, 1951	1101	739
Motion of Certain-teed Products Corporation for stay of proceedings filed in USDC, Northern Iowa, in United States Gypsum Company v. Certain-teed Products Corporation	1109	741
Plaintiff's statement with respect to defendant's motion for stay filed in USDC, Northern Iowa, in United States Gypsum Company v. Certain-teed Products Corporation	1119	748
Exhibit "A"—Petition of United States filed in USDC, District of Columbia in U.S. v. U.S. Gypsum Co. et al.	1126	756
Plaintiff's statement with respect to defendant's motion for stay filed in USDC, Northern Iowa, in United States Gypsum Co. v. National Gypsum Company	1129	759
Exhibit "A"—(Copy)...(omitted in printing)	1136	
Order granting motion for stay of proceedings by USDC, Northern Iowa, in case of United States Gypsum Company v. National Gypsum Company	1139	766
Amendment to complaint filed in USDC, Northern Iowa in United States Gypsum Company v. National Gypsum Company	1143	769
Order granting motion for stay of proceedings by USDC, Northern Iowa in United States Gypsum Company v. Certain-teed Products Corporation	1149	773
Extract from brief of Certain-teed Products Corporation in support of its petition for enforcement of compliance with final decree of May 15, 1951	1151	774

Record from the United States District Court for the District of Columbia—Continued	Original	Print
Extracts from brief of National Gypsum Company on petition for orders, modifications or directions for the enforcement, construction or carrying out of the final decree of May 15, 1951	1153	775
Answers of United States Gypsum Company to the petitions of National Gypsum Company, Certain-teed Products Corporation, Newark Plaster Company, Ebsary Gypsum Company, Inc. and United States of America	1157a	777
Extracts from brief of United States Gypsum Company in answer to the briefs filed by defendant petitioners	1206	812
Extracts from brief of the United States	1284	814
Revocation of designation of Circuit Judge Harold M. Stephens, and designation of Circuit Judge Kimbrough Stone, retired, to replace Circuit Judge Harold M. Stephens as a member of the Court	1288	817
Amendment to above designation of Judges	1290	818
Reporter's transcript of hearing on petitions of National, et al., January 12, 1954	1291	819
Appearances	1291	819
Argument on behalf of National Gypsum Company (Mr. Rosenman)	1297	823
Argument on behalf of Certain-teed Products Corporation (Mr. Miller)	1367	866
Argument on behalf of Newark Plaster Company (Mr. DeWitt)	1373	870
Argument on behalf of Ebsary Gypsum Company (Mr. Rippey)	1382	875
Argument on behalf of the United States (Mr. Knuff)	1386	877
Argument on behalf of United States Gypsum Company (Mr. Spray)	1394	882
Reporter's transcript of hearing on petitions of National, et al., January 13, 1954	1426	901
Appearances	1426	901
Argument on behalf of United States Gypsum Company (continued) (Mr. Spray)	1428	902
Argument on behalf of United States Gypsum Company (Mr. Bromley)	1478	932
Rebuttal argument on behalf of National Gypsum Company (Mr. Rosenman)	1510	953
Rebuttal argument on behalf of Newark Plaster Company (Mr. DeWitt)	1529	965
Rebuttal argument on behalf of the United States (Mr. Knuff)	1540	972
Majority opinion, Stone, C. J.	1544	975
Dissenting opinion, Cole, J.	1591	1015

	Original	Print
Record from the United States District Court for the District of Columbia—Continued		
Findings of fact, conclusions of law, and decree proposed by National Gypsum Company and by Certain-teed Products Corporation	1596	1019
Memorandum of Newark and Ebsary adopting National's proposed findings, etc.	1618	1036
United States Gypsum Company's objections and suggestions with respect to petitioners' proposed findings of fact, conclusions of law, and decree	1619	1037
National Gypsum Company's memorandum in answer to United States Gypsum Company's objections and suggestions with respect to petitioner's proposed findings of fact, conclusions of law and decree	1704	1115
Motion of United States Gypsum Company for reconsideration re opinion of July 6, 1954	1721	1127
Memorandum of Newark Plaster Company and Ebsary Gypsum Company, Inc., in answer to United States Gypsum Company's objections and suggestions with respect to petitioners' proposed findings of fact, conclusions of law and decree	1725	1130
Order denying U.S. Gypsum's objections to petitioners' proposed findings, etc., and motion for reconsideration	1733	1135
Memorandum opinion re objections and motion for reconsideration	1734	1136
Findings of fact	1742	1144
Conclusions of law	1755	1155
Order of majority adopting findings and conclusions	1758	1158
Order of Cole, J., dissenting from findings and conclusions	1759	1158
Decree by majority with dissent by Cole, J.	1760	1159
Motion of U. S. Gypsum Co., for new trial	1762	1160
Points and authorities in support of U.S. Gypsum Company's motion for new trial	1766	1163
Statement of National Gypsum Company and Certain-teed Products Corporation in opposition to United States Gypsum Company's motion for new trial	1800	1193
Appendix "A"	1814	1205
Reply of petitioners, Newark Plaster Company and Ebsary Gypsum Company, Inc., in opposition to the motion of United States Gypsum Company for a new trial	1816	1207
Reply of United States Gypsum Company to petitioners' statement in opposition to its motion for new trial	1819	1208

	Original	Print
Record from the United States District Court for the District of Columbia—Continued		
Reporter's transcript of hearing on motion for new trial—April 26, 1955	1826	1214
Appearances	1826	1215
Argument on behalf of United States Gypsum Company (Mr. Spray)	1829	1216
Argument on behalf of United States Gypsum Company (Mr. Bromley)	1872	1245
Argument on behalf of National Gypsum Company (Mr. Rosenman)	1899	1262
Argument on behalf of Certain-teed Products Corporation (Mr. Miller)	1960	1301
Argument on behalf of Newark Plaster Company (Mr. DeWitt)	1963	1302
Argument on behalf of Ebsary Gypsum Company (Mr. Rippey)	1984	1316
Rebuttal argument on behalf of United States Gypsum Company (Mr. Spray)	1989	1319
Rebuttal argument on behalf of United States Gypsum Company (Mr. Bromley)	2004	1330
Order denying motion for new trial (with dissent)	2013	1335
Memorandum opinion re denial of motion for new trial	2014	1336
Order to certify and transmit original documents	2017	1337
Order staying decree of December 9, 1954 and fixing bond	2018	1338
Supersedeas bond on appeal	2019	1339
Notice of appeal to the Supreme Court of the United States	2021	1340
Certificate of service of notice of appeal	2034	1356
Order noting probable jurisdiction	2035	1357

[fol. 1]

IN UNITED STATES DISTRICT COURT

MANDATE OF THE SUPREME COURT OF THE UNITED STATES FILED IN UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA—April 10, 1948

UNITED STATES OF AMERICA, ss:

The President of the United States of America to the Honorable the Judges of the District Court of the United States for the District of Columbia

[Seal of the Supreme Court of the United States]

Greeting:

Whereas, lately in the District Court of the United States for the District of Columbia, before you, or some of you, in a cause between The United States of America, Plaintiff, and United States Gypsum Company et al., Defendants, Civil Action No. 8017, wherein the final decree of the said District Court, entered in said cause on the 5th day of August, A. D. 1946, is in the following words, viz:

"This cause having come on for trial, and the plaintiff having completed its presentation of evidence, and the Court having made and filed its Findings of Fact and Conclusions of Law,

It is hereby adjudged and decreed that the complaint as amended herein be, and the same hereby is, dismissed on the merits.

Harold M. Stephens, Finis J. Garrett, Joseph R. Jackson."

[fol. 2] as by the inspection of the transcript of the record of the said District Court, which was brought into the Supreme Court of the United States by virtue of an appeal, agreeably to the act of Congress, in such case made and provided, fully and at large appears.

[fol. 3] And whereas, in the present term of October, in the year of our Lord one thousand nine hundred and forty-seven, the said cause came on to be heard before the said

Supreme Court, on the said transcript of record, and was argued by counsel:

On consideration whereof, It is now here ordered, adjudged, and decreed by this Court that the decree of the said District Court, in this cause be, and the same is hereby, reversed.

And it is further ordered that this cause be, and the same is hereby, remanded to the said District Court for further proceedings in conformity with the opinion of this Court.

March 8, 1948.

[fol. 4] You, therefore are hereby commanded that such further proceedings be had in said cause, in conformity with the opinion and decree of this Court, as according to right and justice, and the laws of the United States, ought to be had, the said appeal notwithstanding.

Witness, the Honorable Fred M. Vinson, Chief Justice of the United States, the ninth day of April, in the year of our Lord one thousand nine hundred and forty-eight.

(Signature Illegible), Clerk of the Supreme Court of the United States.

[fol. 5] [File endorsement omitted]

IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

Civil Action No. 8017

UNITED STATES OF AMERICA, Plaintiff,

v.

UNITED STATES GYPSUM COMPANY, ET AL., Defendants

ORDER ON MANDATE—Filed June 8, 1948

United States of America having appealed to the Supreme Court of the United States from the judgment entered in this cause on the fifth day of August, 1946, and the said court having issued its mandate dated the ninth day of April, 1948, wherein it was ordered, adjudged and decreed that said judgment be reversed and the cause re-

manded to the District Court for further proceedings in conformity with the opinion of the Supreme Court of the United States;

Now upon the mandate of the Supreme Court of the United States, dated the ninth day of April, 1948,

It is ordered, adjudged and decreed that the judgment of this court entered the fifth day of August, 1946, be and the same is hereby vacated and set aside; and that the cause be restored to the docket for further proceedings in accordance with such mandate.

Dated June 8, 1948 .

Harold M. Stephens, Finis J. Garrett, Joseph R. Jackson.

A true copy. Test: Harry M. Hull, Clerk, by H. N. Graves, Deputy Clerk. (Seal.)

[fol. 6] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

Holding a Three Judge Court

Civil Action No. 8017

UNITED STATES OF AMERICA, Plaintiff,

v.

UNITED STATES GYPSUM COMPANY; NATIONAL GYPSUM COMPANY; CERTAIN-TEED PRODUCTS CORPORATION; THE CELOTEX CORPORATION; EBSARY GYPSUM COMPANY, INC., NEWARK PLASTER COMPANY; SAMUEL M. GLOYD, doing business under the name of TEXAS CEMENT PLASTER COMPANY; SEWELL L. AVERY; OLIVER M. KNODE; MELVIN H. BAKER; HENRY J. HARTLEY; FREDERICK G. EBSARY; and FREDERICK TOMKINS, Defendants

Reporter's Transcript of Proceedings of Conference of June 8, 1948

Court Room, U. S. Court of Appeals Building, Washington, D. C., Tuesday, June 8, 1948.

The above-entitled cause came on for discussion with respect to further proceedings at 10:00 o'clock a. m., pur-

suant to notice, before Honorable Harold M. Stephens, Honorable Finis J. Garrett, and Honorable Joseph R. Jackson, sitting as the District Court of the United States for the District of Columbia.

[fol. 7] APPEARANCES:

On behalf of the plaintiff:

Roscoe T. Steffen, Esq., and Edward Knuff, Esq., Special Assistants to the Attorney General.

On behalf of the defendants:

Bruce Bromley, Esq., Hugh Lynch, Jr., and Murray W. McEniry, Esq., for the defendants United States Gypsum Company, Sewell L. Avery and Oliver M. Knode.

Elmer E. Finck, Esq., for the defendants National Gypsum Company and Melvin H. Baker.

Charlton Ogburn, Esq., for the defendant Certain-Teed Products Corporation.

Andrew J. Dallstream, Esq., Norman Waite, Esq., and Ralph P. Wanlass, Esq., for the defendants The Celotex Corporation.

Joseph S. Rippey, Esq., for the defendants Ebsary Gypsum Company, Inc., and Frederick G. Ebsary.

James O'Donnell, Jr., Esq., for the defendants Newark Plaster Company and Frederick Tomkins.

Scott P. Crampton, Esq., for the defendant Samuel M. Gloyd, doing business under the trade name of Texas Cement Plaster Company.

[fol. 8] PROCEEDINGS

Chief Justice Stephens: The Court has received the mandate of the Supreme Court in this case and also the letter of the Government requesting a conference of all counsel.

That letter suggested that the Government wished to propose a plan with respect to the further progress of the case.

We will hear from the Government on that subject.

Mr. Rippey: If the Court please, I am appearing for the

first time in this case on behalf of the Ebsary Gypsum Company, Inc., and Frederick G. Ebsary.

I should like to ask the permission of the Court to enter my appearance for the purposes of this case.

Chief Justice Stephens: Will you state your name?

Mr. Rippey: Joseph S. Rippey.

Chief Justice Stephens: Your appearance may be entered.

OPENING STATEMENT ON BEHALF OF THE PLAINTIFF

By Mr. Steffen:

Mr. Steffen: Your Honor, I have submitted to the Court an order on the mandate of the Supreme Court, and I believe it is on your Honor's desk. It vacates the judgment entered on the 5th of August, 1946, and restores the case to the docket for further proceedings. I think it is a formality. Copies have been served on the other side.

Chief Justice Stephens: Do the defendants have any comment on this proposed order?

[fol. 9] Mr. Bromley: May it please the Court, only that I think it is unnecessary.

Mr. Steffen: May I make a statement, further, your Honor?

Chief Justice Stephens: You may.

Mr. Steffen: We consulted Mr. Hull, the Clerk, and he states that that is the usual practice in the District, and we simply attempted to conform with that.

Chief Jusice Stephens: We think it is probably unnecessary in view of the form of the mandate in the Supreme Court. However, it probably will do no harm to sign it, but we will postpone action on it until we hear further from the Government as to its plan with respect to the further progress of the case. It might bear some relation to that, so we will postpone it temporarily.

Mr. Steffen: I can state very briefly what our plan is: With the case reinstated, the matter comes back to the Court for purposes of further proceedings, and in normal course the defendants would go forward with their evidence.

The complexion of the case is somewhat changed since

it was argued before your Honors, and I think that probably your Honor's duties have been somewhat augmented since that time, and our purpose——

Chief Justice Stephens: (Interposing) I am sorry, I didn't quite understand that.

Mr. Steffen: I say I think your Honor's duty as Presiding [fol. 10] Justice here have been somewhat augmented since the time of the argument and that our purpose is to see if some means cannot be worked out whereby we can bring the case to as early a conclusion as possible.

Some of the matters that were gone into on the Government's proof now become more or less immaterial, in view of the Supreme Court's holding.

Contrariwise, some of the evidence that the defendants might have originally intended to put in by way of countervailing that proof becomes unnecessary; and, therefore, what we are suggesting as a preliminary matter is that the Court designate a date, possibly two weeks hence, at which we can have a conference, pre-trial conference, under Rule 16 or under the inherent power of the Court to, at any point in a proceeding, take hold of the proceeding and find out what the remaining issues are, in order that we can determine what time will be required to hear the rest of the case.

Judge Jackson: Could that be done now?

Mr. Steffen: It could be done now, as far as we are concerned; but I think the defendants are perhaps entitled to more time, because what I would specifically want to know would be the categories of evidence which they feel they are now entitled to put in, in view of the holding of the Supreme Court.

I think that there is no question of the power of the Court to proceed; it is a question of whether your Honors feel [fol. 11] that that is the most expeditious way of getting at this matter.

Chief Justice Stephens: Thank you, Mr. Steffen.

What do the defendants have to say, if anything, on this subject of further proceedings?

STATEMENT ON BEHALF OF THE DEFENDANTS

By Mr. Bromley:

Mr. Bromley: May it please the Court, what I have to say depends to some extent upon an understanding of what the opinion of the Supreme Court means. I am sure that I am not clear about that, nor am I clear as to the Government's position as to what it means.

I should think that if the Government thought that the opinion meant that a mere plurality of licenses which resulted in the licensing of an entire industry with price fixing under bulletins was illegal, that they would take an affirmative step, say in the way of a motion for summary judgment.

There has been some talk between some representatives of the Department and me about that matter. I take it that they have not, as yet, made up their minds.

It seems perfectly clear, however, that if they make up their minds that they can not prevail in such a motion, that then the Government and the defendants would be in agreement on the proposition that the Supreme Court did not mean to announce any such doctrine as that a mere plurality of licenses extending industrywide with price fixing under bulletins resulted in a violation of the Sher- [fol. 12] man Act.

Judge Garrett: Mr. Bromley, may I inquire?

A motion for reconsideration by the Supreme Court was made, was it not?

Mr. Bromley: Yes, your Honor.

Judge Garrett: It was denied, without opinion?

Mr. Bromley: Yes, your Honor.

Judge Garrett: May I inquire: Were they asked to clarify that point in the motion for the new trial?

Mr. Bromley: No, your Honor, not specifically.

Chief Justice Stephens: Proceed, Mr. Bromley.

Mr. Bromley: Therefore, I should like to devote a few moments to a consideration of what I think the opinion of the Supreme Court means.

I suppose we can start off on the proposition, as to which there will be no disagreement——

Chief Justice Stephens: (Interrupting) Before you proceed, let me send for some material.

(Short interval.)

Chief Justice Stephens: Proceed.

Mr. Bromley: We can all agree, I think, that the Supreme Court has not overruled the General Electric case and that it stands today, still stands, as the law. I refer in support of that, if any support is needed, particularly to the Line Material opinion, on pages 23 of the slip opin-[fol. 13] ion, in which the Court said that it was "called upon to make an adjustment between the lawful restraint on trade of the patent monopoly and the illegal restraint prohibited broadly by the Sherman Act," and then had this to say, and I quote it——

Chief Justice Stephens: (Interposing) What page?

Mr. Bromley: Page 23 of the slip opinion in Line, the majority opinion. The first full paragraph on page 23. I have summarized the first sentence beginning "We are thus called upon", and I was about to read the second sentence.

> "That adjustment has already reached the point, as the precedents now stand, that a patentee may validly license a competitor to make and vend with a price limitation under the General Electric case and that the grant of patent rights is the limit of freedom from competition under the cases first cited at note 22."

So, I say the General Electric case has not been overruled.

Chief Justice Stephens: Let me read that again. I am sorry, I don't put my eye on it.

Mr. Bromley: That is page 23, the first full paragraph, about seven lines down, beginning "We are thus called upon".

Chief Justice Stephens: There were several opinions in that case.

Mr. Bromley: Yes, sir, this is the first, majority; the first, page 23. The paragraph begins "We are thus called [fol. 14] upon".

Chief Justice Stephens: Yes, very well.

Mr. Bromley: So, with the General Electric case being still the law and not being overruled, I proceed to the second point, which I think is equally clear, and that is that a plurality of licenses is lawful. That is, perhaps I should say, a mere plurality of licenses; that, if all the proof amounted to was that there was a plurality of licenses, that ipso facto by itself would not offend the Sherman Act.

Now, I reach conclusion because, again, of the Line Material case in which there was a plurality of licenses, and it seems to me that the majority opinion—indeed, all the opinions—are implicit with the proposition that if there had been no cross licensing between Line and Southern the case would have been decided in favor of the defendants.

Again, at page 23 of Line Material, near the bottom, six lines up, the Court said:

> "Where two or more patentees with competitive, non-infringing patents combine them and fix prices on all devices produced under any of the patents, comcompetition is impeded to a greater degree than where a single patentee fixes prices for his licensees."

I gain support for my position from the fact that I consider that to be an explicit recognition of the legality of plurality of licenses. Furthermore, and perhaps more [fol. 15] important than a mere passing phrase from a sentence, it would have been completely unnecessary to have considered the cross-licensing feature of the case in Line Material if the Court had been of a view that a plurality of licenses extending throughout an industry, as it did there, by itself would have offended the Sherman Act.

So, I say the General Electric case is still law and both cases, Line and Gypsum, recognize that in some circumstances—which I will proceed to consider later—plurality of licenses is still lawful and mere plurality of licenses does not offend the Sherman Act.

Now, coming to our case: Just what did the Supreme Court mean in holding that under the licenses and the price bulletins there was a prima facie case of illegality which made the declarations receivable against all?

I know that there are sentences in the opinion in the

Gypsum case such as the one beginning in the fourth line on page 34, the fourth line from the top on page 34, of the majority opinion in the Gypsum case:

> "These licenses and bulletins show plainly a conspiracy to violate the Sherman Act."

Well, read alone and isolated one might think that that was a statement that the licenses and bulletins in our case without more, without any more, had been adjudicated to be violative of the Sherman Act; but I do not believe that [fol. 16] that can be said to be the intent of the opinion, and I call attention to the bottom of page 34, in the last paragraph, the fifth line up from the bottom, in which the Court is speaking of the General Electric case and says:

> "That case"—meaning General Electric—"gives no support for a patentee, acting in concert with all members of an industry, to issue substantially identical licenses to all members of the industry under the terms of which the industry is completely regimented, the production of competitive unpatented products suppressed, a class of distributors squeezed out, and prices on unpatented products stablilized."

Then, on page 35, five lines from the top, the Supreme Court, it seems to me, sums up the situation in these words:

> "Even in the absence of the specific abuses in this case, which fall within the traditional prohibitions of the Sherman Act, it would be sufficient to show that the defendants, constituting all former competitors in an entire industry, had acted in concert to restrain commerce in an entire industry under patent licenses in order to organize the industry and stabilize prices."

Now, I submit that that enunciates a doctrine which draws a very fine line indeed. It does not quite approach the theory of the complaint and the theory about which we [fol. 17] had so much argument—that is, sham. In my judgment, it does not say that the licenses need be sham. I think it completely misinterprets the position of this Court with respect to that proposition but I think that it holds

that something less than a conspiracy to utilize licenses as a sham or a cloak or a cover-up may still offend the Sherman Act and that something less is to be found in the words "acted in concert".

Now, giving the opinion all the force that it should be given, this would mean that if there was an agreement among the licensor and the licensees that prices were to be fixed and the industry regulated and prices stabilized, that would be a step beyond the permissible limit of the patent monopoly, even if that plan or agreed concert of action was to be effectuated by license agreements.

Now, of course, as this Court's opinion so clearly pointed out, it is very difficult to see any real distinction in the result between the negotiations which, necessarily, must accompany the issuance and acceptance of licenses and the discussions which, necessarily, must be carried on with respect to them and the position of the Supreme Court, as I read it, that those negotiations may be lawful but they are not lawful if they have resulted in an understanding throughout the industry that the industry is to be regulated and prices are to be fixed and it is understood that the licensor—that is, the patent owner—when he issues the [fol. 18] licenses does so for the purpose of regulating and stabilizing the industry, and it is not merely a patentee acting independently and for the protection of his patent and for the realization of the maximum profit therefrom.

Issuing licenses with the same terms—the latter would be all right, if a licensor sent out to everybody in the industry an identical license with price fixing and all the other provisions contained in the licenses in this case, and there wasn't a word said by anybody except everybody sent the licenses back signed—I take it that under the doctrine of the Supreme Court in this very Gypsum situation, they would say that was lawful, but if the preceding discussions and negotiations, as colored by the declarations, lead to the conclusion that the action was not the independent action of the licensor but was understood by everybody to be an arrangement to stabilize the industry pricewise and in other respects, too, then I think the Supreme Court by this opinion has said that that would offend the Sherman Act.

But the point that I want to make is that it still leaves

the defendants with a defense to put in, and that defense is to show that the true facts here fall into the permissible category and not into the illegal.

I think we are entitled to show a thing which we have not shown, which has not been shown in this case to any considerable degree, that the licensor in this situation acted [fol. 19] with complete independence and never was a party to any understanding or arrangement with any licensee with regard to the stabilization of the industry. I think we are entitled to show by witnesses and lawyers connected with the licensor during the times in question that all that was done was for the owner of a patent to protect his rights; to sue those who infringed it, to try to collect damages from those, and to offer a license to anybody who wanted it, completely without regard to whether all would take it or whether only one would take it or whether two or three, and I think if we establish that through the testimony of the licensor and perhaps from some of the licensees who have not been heard from, that we may succeed in convincing the trier of the facts that there was no pre-arrangement but that all that went on here was merely the normal activities of a licensor interested in preserving his patent and his position.

Now that, in very brief outline, is my position with respect to the meaning of the decision and with respect to what it is I desire to put in by way of defense. Of course, there are collateral issues, such as the elimination of jobbers and open-edge board and the alleged resale price fixing and operations of Board Survey, as to which we also would desire to offer additional evidence through the lips of the secretaries of Board Survey who ran Board Survey and who conducted the correspondence in the effort to en- [fol. 20] force the licenses and through the sales people and others to explain the origin, meaning, extent, and effect of the provisions with regard to the imposition of royalties on all products whether patented or unpatented, and so with respect to every one of the four collateral issues.

We think we are entitled now to put in that kind of a defense, and we think that the clear meaning of the opinion of the Supreme Court gives room to defend on those grounds and that the Government still has the burden of

showing that there was a pre-arranged scheme which went beyond the mere activity of a patent owner in doing what the General Electric case says he could do—that is, license with price fixing.

Chief Justice Stephens: Any other representatives of the defendants wish to be heard?

(No response.)

Chief Justice Stephens: Mr. Steffen?

FURTHER STATEMENT ON BEHALF OF THE PLAINTIFF

By Mr. Steffen:

Mr. Steffen. I would like to say just a few words in connection with Mr. Bromley's argument, your Honor.

With respect to the motion for summary judgment, our purpose, in part, in holding a pre-trial conference in order to determine what the actual issues are, is to determine whether we are in position to proceed to move for summary judgment. I think we will have to define them somewhat [fol. 21] more definitely than we have before we can take a position on that.

I would like now to reply, in part, to Mr. Bromley's statement with respect to the petition for rehearing before the United States Supreme Court. I don't know that Mr. Bromley gave Judge Garrett quite the right impression.

There was a petition for a rehearing, and in that petition for a rehearing the defendants made the very point which Mr. Bromley has urged here this morning; that is, that under the Line Material case that if there was not something more than a mere plurality of licensing, that it might be perfectly legal.

His first point was that the General Electric case has not been overruled.

Chief Justice Stephens: Referring now to petition for rehearing?

Mr. Steffen: I am referring to Mr. Bromley's argument and to page 6 of the petition for rehearing.

Chief Justice Stephens: Judge Garrett wants a copy of that petition, and I have an extra one here.

Mr. Steffen: That is page 6, Judge Garrett, along about about the middle of paragraph (c).

Judge Garrett: Whereabouts, on page 6?

Mr. Steffen: Beginning with the words "If the rule", about the middle of paragraph (c) on page 6.

I am calling your Honors' attention to this, because this was the argument made before the Supreme Court on the [fol. 22] petition for rehearing, and they there said:

> "If the rule of the General Electric case recognizes the right, as we insist it must, of the patentee to licensee the industry, how could the intention of the patentee disclosed to its licensees or the intention of the patentee and some or all of its licensees to make the licenses 'industry-wide', take the case out of the rule of the General Electric case?"

In other words, they raised exactly the point there that is being urged here, and our contention is clear that if those arguments were presented to the United States Supreme Court on their petition for rehearing and the petition was denied, it is equivalent to a ruling contrary to their argument.

Now they are a little more explicit. Mr. Bromley argued that the Line Material case went the way that it did only because of the fact that it involved cross-licensing, and if it were merely a plurality of licenses, that the court might have decided the other way. And to show that he made that argument to the Supreme Court also, refer to page 9 in the middle of the first paragraph, where it says:

> "If that case, instead of involving cross-licensing which was the turning point in the opinion, had involved merely plurality of licenses, the Court would [fol. 23] have been compelled under the language of its own opinion to affirm the District Court, for did not the Court say that the adjustment between the lawful restraint of the patent monopoly and the illegal restraint prohibited broadly by the Sherman Act had reached the point, as the precedents now stand, that a patentee may validly license a competitor to make and vend with a price limitation under the General Electric case?"

In other words, the two points with which Mr. Bromley started out this morning have been presented, were presented to the Supreme Court; and the Court in its refusal to grant a rehearing must be deemed to have been fully advised of the arguments that are now being made and to have taken the position that they did not affect the generality of the language which Mr. Bromley was reading from its opinion.

Now, I think that the language of the Supreme Court in the Gypsum case is extremely broad and that it reaches to the point of saying, just as we argued, may I say, back at the time of the trial, that any combination of competitors which has the result of organizing an industry and effecting a stabilization of prices, together with a regulation of distribution, is illegal.

Now, the language—there are some sentences Mr. Bromley didn't quote, in the opinion. If you will look at page 5 of the opinion, there is a sentence that, it seems to me, [fol. 24] answers this case. It says:

> "The rewards which flow to the patentee and his licensees from the suppression of competition through the regulation of an industry are not reasonably and normally adapted to secure pecuniary reward for the patentee's monopoly."

Now, there are no "ifs, ands, and buts"; that is just a flat statement that where you have an entire industry organized under patent licensing agreements and where, as in this case, you have admitted price fixing, you have admitted control of distribution, that those rewards which are derived from that combination do not flow from the patent, and it follows, of necessity, as we see it, that the combination, which I take it is agreed to—Mr. Bromley doesn't suggest that he is going to challenge the question of whether they fixed prices—I think it is perfectly clear they did fix prices, and he said in his opening statement that they did fix prices among their competitors—that the combination is such that there is no question but what they have regulated distribution through the price bulletins; there is no question that they have placed their regulations under Board Survey; there is no real question that they

eliminated jobbers by virtue of their leveling off of the price; therefore, that it is squarely a combination of an entire industry squarely within the language of the Court [fol. 25] to restrain commerce, and it is unlawful under the Act.

Now, if that is the case—and that is our position—then the matters which caused us much debate when the case was here before, as to whether or not there was sham in the situation, is out the window. Sham is no longer important. The case is simply one of: Did you combine and organize an industry and are you today, or at least as of November, 1929, were you, a combination of all the competitors astride the industry, fixing prices, organizing it? And, if so, regardless of how you got there—this is an equity case—regardless of how you got there, you are a combination in restraint of trade, and the rewards which you are getting, the Court said, are not rewards flowing from the patent and they are not protected by anything said in the General Electric case.

The Court's language on that is extremely potent, we think. The Court said:

> "That case gives no support"——

Chief Justice Stephens: What page?

Mr. Steffen: I have the Federal supplement. I think it is on page 34.

Chief Justice Stephens: Of the Gypsum opinion of the Court?

Mr. Steffen: Page 34 of the slip opinion.

> "That case gives no support for a patentee, acting [fol. 26] in concert with all members of an industry, to issue substantially identical licenses to all members of the industry."

There isn't any question but what they have acted in concert. Whether there was pre-concert to do this is beside the point. They did act in concert.

They did "issue substantially identical licenses to all members of the industry under the terms of which the industry is completely regimented, the production of competitive unpatented products suppressed," competitors, that is,

jobbers, "squeezed out, and prices on unpatented products stabilized."

Now, the Court said:

> "Even in the absence of specific abuses in this case" —that is, even in the absence of eliminating jobbers or stabilizing or tampering with price of plaster or matters of that sort which would normally make a case.
>
> "Even in the absence of specific abuses in this case, which fall within the traditional prohibitions of the Sherman Act, it would be sufficient to show that the defendants,"—and this is the case—constituting all former competitors in an entire industry,"—there is no question about that; they are all former competitors in the entire industry—"had acted in concert to [fol. 27] restrain commerce"—and from 1929 on, to date, we showed an abundance of concerted action; licensee meetings, the price bulletin, the Board Survey, they were acting in concert from then on most certainly —"had acted in concert to restrain commerce in an entire industry under patent licenses in order to organize the industry and stabilize prices."

In other words, the Court says that if you have got concerted action, you have got stabilization of prices among erstwhile competitors. The fact that they may — used the patents, the fact that any particular patent license may have been lawful is immaterial. You may use lawful steps to carry out an unlawful restraint or combination in restraint of trade.

Now, if that is all true—and that is the Government's position, your Honors, it leaves very little for the defendants, if anything, to introduce by way of evidence.

Judge Jackson: That would all depend upon our interpretation of the Supreme Court's opinion?

Mr. Steffen: Yes, and it is a law question, and our thought in the matter, your Honor, is that in order to save a lot of waste motion possibly we could get some sort of an understanding on that in these early stages. It seems to us that we ought to come to some agreement on how much

evidence and on what categories of evidence the defend-
[fol. 28] ants should be permitted to proceed.

Then, if we get the matter to a point where we feel that there isn't anything substantial left, we will then, if necessary, move for summary judgment. That would be one way to bring the matter to a head, but we do not have any desire to do that if there is any way of getting at it in a more satisfactory manner.

But our position is clear, that the whole question of sham and the whole question of whether the rewards are beyond what is proper under the General Electric doctrine are out; and that leaves you with nothing but an existing combination—note carefully that while we went in with great care back in 1925 to '29 and into how the thing started, much of that, I feel, today is unnecessary. The fact that we are dealing right now with a combination in existence and the fact that it does restrain trade (inasmuch as the Court says that the rewards are beyond what they were entitled to under their patents) are ground for equitable intervention.

I might point out further that much of Mr. Bromley's testimony or prospective testimony concerning the patent infringement and litigation, and so on, doesn't quite reach this case. This case, as it is looked at now, the licenses that are now before your Honors were signed in November, 1929, and there isn't much doubt on the record—and I would like to hear from Mr. Bromley if he has any real
[fol. 29] doubt on the matter—not much doubt on the record that from the time of the May, 1929, agreement and during the summer of 1929 that the whole industry did meet and that the whole industry did discuss in great detail the licenses under the Foam Patent and the licenses under the Starch Patent, so there isn't any question but what there was pre-concert in the sense of getting together with the idea of having the whole industry licensed.

We have the National Gypsum Company and even Mr. Finck in his opening statement saying that they went into the November licenses and only went into them the way they did on the understanding that the whole industry would come together and there would be a lawful price control. He was in eror as to "lawful", according to the Su-

preme Court, but there is no doubt that that is what they intended to do.

I should like to hear further from Mr. Bromley if he would care to be a little more precise on what he feels he could introduce. I think it has a definite bearing on when you may set the case for trial, how long it would take, and on the question of whether we feel we should move for summary judgment.

Chief Justice Stephens: Let me ask you one further question. Is it the purpose of the Government to introdue evidence with respect to the validity of the patents?

Mr. Steffen: We would like to hold that to one side. I would say frankly, your Honor, we haven't made up our [fol. 30] mind entirely. If this case can be handled without it, we would be very glad to. It opens up another topic, which it seems to us would take quite a lot of time.

We want to reserve our rights, but we have no immediate intention of doing that.

Chief Justice Stephens: Mr. Bromley, do you wish to be heard further?

FURTHER STATEMENT ON BEHALF OF THE DEFENDANTS

By Mr. Bromley:

Mr. Bromley: May it please the Court. I still do not understand the Government's position with respect to the opinion.

Judge Jackson: But, Mr. Bromley, if we should disagree with your interpretation of that opinion, then the motion for summary judgment would be in order?

Mr. Bromley: Yes, sir, if you disagreed with it to the extent of saying that a mere plurality of licenses offended the Sherman Act.

Judge Jackson: Under the circumstances of this case.

Mr. Bromley: Yes. But it isn't possible, it seems to me, to agree with Mr. Steffen's interpretation, if I understand it correctly, that is, that the mere taking of the licenses in the circumstances was action in concert, and that you don't need to show any pre-concert, as he called it.

Maybe he has put his finger on a distinction which I had [fol. 31] not made clear. Maybe there is a difference be-

tween concert in taking the licenses and pre-concert in agreeing to a plan of industry stabilization through licenses; but if the Supreme Court did not mean by its opinion that there must be a prearrangement, a plan to stabilize the industry in the sense in which I have been trying to say it, why in the world would the Supreme Court say, as it did at the bottom of page 27 of the opinion, "The trial court made findings of fact which if accurate would bar a reversal of its order"?

Now, what in the world can that mean, especially when one turns over the page and finds that the Supreme Court goes right away to Finding 118?

The very next sentence is:

> "In Finding 118 the trial court found that the evidence 'fails to establish that the defendants associated themselves in a plan to blanket the industry under patent licenses and stabilize prices.' "

Doesn't that mean that the defendants should be permitted to show, if they can, that there was no plan?

Now, how can they show there was no plan?

Let's go to the May, 1929, meetings. It depends upon what the evidence shows was the purpose of those meetings and what went on at the meetings.

Judge Jackson: Wasn't that all thoroughly brought out in the Government's case by your cross-examination as far [fol. 32] as you and your clients are concerned?

Mr. Bromley: No, sir.

Judge Jackson: I thought it was.

Mr. Bromley: Yes, your Honor's statement is quite right with this exception: We have not presented the evidence from the lips of any representative of the licensor. For instance, neither Mr. Avery nor Mr. McLeish, the lawyer at whose instance the meetings were called, who participated in the discussions and negotiations that went on there, have told the story from their standpoint, and they are the only ones who know the whole story.

Judge Jackson: What difference would that make in view of the record as it stands now?

Mr. Bromley: Well, might this not make a difference, sir: Suppose that after the men got to the meetings negotia-

tions were conducted by the licensor's counsel separately with each licensee, that there never was any joint discussions which could possibly be susceptible of the inference that there was a common understanding that licenses would be issued and that the licensor would exercise his right to fix prices?

Judge Jackson: You think that would change, then, the ultimate situation?

Mr. Bromley: Yes, sir, I think that if we could show that it was the licensor's position that it didn't become a party [fol. 33] to any understanding at all, that it never indicated that it would fix prices, that it would do anything—all it did would sign a contract that gave it the right, if it wanted to, to fix prices—and if we could show that the negotiations that there were conducted were separate independent negotiations conducted with each one separately in a different room without any common meeting or any discussion which in words or inferences could possibly justify the conclusion that there was an arrangement among everybody to stabilize the industry as distinct from a straightforward negotiation to offer and take a license —I say, again, if we could show—and I say this only for purposes of illustration—that there never was a May meeting, that instead of that we wrote identical letters to every licensee on May 21, 1929, and enclosed a copy of the license and we got the signed copy back, I think that would be a good defense. No discussion of any kind; the parties never met—suppose, I could prove that, that they never met, just sent the licenses out and they were signed?

Now, all I am struggling to point out in answering your Honor's question is that there is some defense which this opinion allows us to put in.

The most extreme illustration that I can think of is the one I mentioned, that the parties never met, but they sent out the licenses on the same day, if you will, with an identical letter and an identical license, and they came back all [fol. 34] signed.

Now, that might raise an inference under the Interstate Circuit case, that there must have been an understanding, else they wouldn't have all come back, else they wouldn't have all been sent out on the same day. But surely the

defendants ought to be permitted to call the man who wrote the letter from the licensor to testify that he never talked to anybody and he did it on his own volition and independently and that he had no understanding that if the licenses were signed that he would fix prices—sure, the right was reserved in the license; he had no understanding that he would stabilize the industry, nor that he even would fix a price.

Judge Jackson: But you are up against the barrier, aren't you, that price fixing was had and stabilization did occur?

How are you going to get over that?

Mr. Bromley: Well, I can't deny the fact that prices were fixed until 1941. If there had been an arrangement, I urge, to stabilize the industry, we would not have stopped price fixing when our fundamental Starch Patent ran out, but I don't think it conclusive against us, sir, that there was price fixing. I do not think we are condemned unless you find that the price fixing which we did was done pursuant to a pre-concert understanding that we would do so, and that it was the purpose of the licenses to stabilize the industry and not the purpose merely of the patent owner [fol. 35] to realize the full benefit of his patent.

I know that is a very, very fine line.

Judge Garrett: Mr. Bromley, may I interrupt for a moment?

On page 33 of this opinion, that paragraph beginning "The trial court made many other findings to which the government objected", and so on, and which winds up, "Enough has been said as to the findings and the evidence, we think, to enable the District Court to pass upon the facts that may come before it on further proceedings in accord with our present ruling."

Now, we made findings of fact which the Supreme Court has expressly reversed and giving their authority for doing so. What is the significance of that?

Suppose you make the proof? Suppose you call Mr. Avery, suppose you call Mr. McLeish, and they testify as you think they will; how far does that get us?

Would not the Supreme Court again say, if we should hold that that established the crossing of that fine line to

which you refer, in the light of all the reasoning of the Supreme Court herein its statement—would not the Supreme Court again say, "Well, we don't think that is so"?

I just wonder about it.

Mr. Bromley: I can't believe that, if this Court was convinced by the evidence that we introduced sufficiently to make a new Finding 118, that the Supreme Court would upset it again. I can't believe that would happen, because [fol. 36] that presumably would be done with a view of the case which the Supreme Court has announced, that is to say, there must be proof that there was some arrangement, some action which was understood to be concert of action to secure stabilization of the industry, as distinguished from the mere taking of the licenses, even though the taking might be said to be in concert in the sense that all took the '29 licenses at or about the same time.

I don't think that is the kind of concert of action that the Supreme Court is talking about. I think, in these many sentences—While I am on that subject, page 23, I think, is an illustration of what I am talking about, starting at the very top of the page:

> "A consideration of that point"—they are talking about declarations—"really involves the heart of the case since the treatment of the declarations may vitally affect the outcome."

Now, how could the treatment of the declarations vitally affect the outcome unless the Court was thinking there must be proof of something more than the mere taking of the licenses?

When you reflect upon the nature of the declarations and reflect that the Supreme Court is saying if the Court had received all these declarations and treated them as evidence binding on everbody, it might have reached a different conclusion. About what? About whether or not there was [fol. 37] a plan. What kind of a plan? A pre-arrangement, a plan to stabilize the industry and not merely a determination on the part of the licensor to gain the full benefit of his patent, which was acquiesced in by the licensees when they took the licenses.

Chief Justice Stephens: What about the next statement, two sentences below, Mr. Bromley, where the Court says:

> "We think that the industry-wide agreements entered into with knowledge on the part of the licensor and licensees of the adherence of others, with the control over prices and methods of distribution through the agreements and the bulletins, were sufficient to establish a prima facie case of conspiracy."?

Now, is there any dispute of fact in the case that there were industry-wide license agreements?

Mr. Bromley: No, sir.

Chief Justice Stephens: Entered into with knowledge on the part of licensor and licensees of the adherence of others, with the control over prices and methods of distribution through the agreements and the bulletins?

Mr. Bromley: Well, now, I have difficulty with admitting that in this case the industry-wide license agreements were entered into with knowledge of the adherence of the others, because I don't think you can tell what they are talking [fol. 38] about. If they are talking about "entered into with knowledge of everybody that there was a pre-arrangement, that there was a plan to stabilize the industry," which is something bigger than a mere licensor's determination to license, then that makes sense; and that is what I think they are talking about.

I don't think they meant to say that if industry-wide license agreements are entered into and at the time they are entered into everybody knows what everybody else is doing, that would be bad; but if you could prove that nobody knew what anybody else was doing, then industry-wide licenses wouldn't be bad. They can't mean that. That doesn't make any sense. I think they are merely stating the conventional doctrine that where there is an illegal conspiracy and somebody comes along and enters into the arrangements with knowledge of the conspiracy, he becomes a part of the conspiracy.

Now, I gain comfort for that, because of the preceding sentence, if your Honor pleases, as well as the succeeding sentence. The preceding sentence is:

> "Some may have doubts as to whether the agreements and bulletins are sufficient to establish a con-

spiracy but the admission of the separate declarations against all greatly strengthens the government's position."

Chief Justice Stephens: And the Supreme Court has abolished, has it not, the declarations rule; or has it?

[fol. 39] Mr. Bromley: I just don't know. It seems to me it probably has.

Judge Garrett: It certainly held that the declarations of one party can be taken against the whole.

Chief Justice Stephens: Where is the comment on the declarations?

Judge Jackson: That is in this case, the circumstances of this case.

Judge Garrett: That is what I mean.

Chief Justice Stephens: In effect, that is the declarations part of the case that you have just been reading.

Mr. Bromley: Yes.

Judge Garrett: (Reading)

"We are unable to accept, however, the ruling of the court that declarations of each defendant were admissible only against the defendant making the declaration."

And immediately they hold that it is admissible against all. That is the way I interpret it.

Chief Justice Stephens: The Court goes on to say:

"Each licensee, as is shown by the uncontradicted references to the meetings and discussions that were preliminary to the execution of the licenses could not have failed to be aware of the intention of United States Gypsum and the other licensees to make the [fol. 40] arrangements for licenses industry wide. The license agreements themselves, on their face, showed this purpose."

It seems to indicate in that part of the opinion that the undisputed contents of the license agreements convict the defendants of a conspiracy.

Mr. Bromley: Well, I have great difficulty seeing how the license agreements themselves showed the purpose re-

ferred to in the preceding sentence. What they say in the preceding sentence is that,

> "Each licensee . . . could not have failed to be aware of the intention of United States Gypsum and the other licensees to make the arrangements for licenses industry wide."

The Court evidently concluded that there was a prima facie case of a pre-arrangement, and all that sentence means is that in their view, there being a pre-arrangement, they were convinced that everybody knew about it, and I think the statement that the license agreements showed this on their face may only mean to say that you can make an inference from the fact that the agreements were all the same, that there was a pre-arrangement.

Of course, that, I submit, respectfully, is absurd because license agreements would have to be all the same.

Chief Justice Stephens: Anything further from any other defendant's counsel?

[fol. 41] (No response.)

Mr. Bromley: I think probably, with respect to the declarations rule—I don't know that they have abolished the rule, but they have merely said that there was a sufficient prima facie case of a combination to make the declarations admissible.

Chief Justice Stephens: That may be.

Anything else from any other defendant's counsel?

(No response.)

Mr. Bromley: I wonder if the Government—

Chief Justice Stephens: (Interposing) I am sorry, Mr. Bromley, I thought you were through.

Mr. Bromley: I wonder, if the Government goes through with this idea, if it wouldn't be a good thing for them to serve interrogatories on us so we can have an opportunity get a definite question and give a definite answer?

Judge Jackson: As to what?

Mr. Bromley: They say they want to ask us some questions, I suppose to bring out what it is we want to prove.

Wouldn't the best way to do that be for them to serve interrogatories upon us?

Does that appeal to you (addressingg Mr. Steffen)?

(No response.)

Chief Justice Stephens: If there is nothing else to be said for the moment by either government or defendants— [fol. 42] I am sorry, Mr. Bromley, I thought you had finished.

Mr. Bromley: I had finished, except I did want to say that we feel we are entitled to know from the Government whether their case is going to stay rested or not, that they should tell us before we go ahead whether they will attack the validity of the patents or not, because that is part of their case.

Judge Jackson: I thought that was answered by Mr. Steffen.

Mr. Bromley: He said he hadn't made up his mind.

Judge Jackson: Well, he said he hoped he wouldn't have to and didn't intend to at the moment but didn't want to relinquish his right of rebuttal.

Chief Justice Stephens: Well, the defendants would be entitled to sufficient notice to prepare to meet that kind of case if the Government should decide to proceed; and before any actual resumption of the trial is reached, I think each side ought to know, as far as they properly can, of the plans of the other with respect to proof so that preparations can be made on both sides.

Mr. Bromley, assuming that the case goes forward on your theory, how long do you estimate it would take to put in the defendants' case?

Mr. Bromley: Four or five weeks.

Chief Justice Stephens: And will the Government expect to have rebuttal, or is that too much to ask?

[fol. 43] Mr. Steffen: We would have to reserve our rights, your Honor. I might say I think three or four weeks is a very long time if all Mr. Bromley is going to put in evidence on is this very, very fine line concerning pre-concert.

Mr. Bromley: Well, that is not all. As I said, I am going to call witnesses about Board Survey and about elimination of open edge board and the alleged fixing of

resale prices. Those findings have been set aside. We want to have them reinstated.

Chief Justice Stephens: We will recess for fifteen minutes.

(Recess, 11:09 a.m. to 11:24 a.m.)

Chief Justice Stephens: I suppose the Clerk should call the roll and see that everyone is present or accounted for.

Is everyone represented here this morning, do you know, Mr. Bromley?

Mr. Bromley: I think so, your Honor.

Chief Justice Stephens: Mr. Johnston is notable, by his absence.

Mr. Bromley: Yes, but he has someone here.

Chief Justice Stephens: The Court is of the view that there is nothing before it upon which to rule and that nothing could be before it upon which to rule by virtue of a pre-trial conference.

Further discussion such as we have indulged in this [fol. 44] morning might ensue, but still there would be nothing before us upon which to rule, and we think the only way to get a determination as to the meaning of this opinion of the Supreme Court is to get something before us on which to rule.

We entertain, therefore, a motion for summary judgment and request the Government to file a motion for summary judgment; and we request the defendants to make a proffer of such proof as they think they have a right to make in addition to making such contest as they wish to make on motion for summary judgment.

Then, we will have something before us upon which the Court can rule, as to what the meaning of the Supreme Court opinion is; and from that ruling, possibly further appeal can be taken for clarification to determine what its meaning is with respect to this situation.

I am frank to state, with all proper respect and deference to the higher tribunal, that I have difficulty in reaching a conclusion as to just what the opinion means on many of the matters that have been discussed here this morning, and the differences between counsel already discussed indicate that they are in a similar doubt, and we have nothing before us on which to rule.

I think I reflect the views of my colleagues. We have nothing before us upon which to rule, and the only way we can get a ruling is by having some sort of motion before us.

How soon can you make a motion for summary judg-
[fol. 45] ment, Mr. Steffen?

Mr. Steffen: May I confer with my colleagues?

Chief Justice Stephens: Surely.

Mr. Steffen: Your Honor, we are in doubt as to how we could prepare our motion for summary judgment until we had some showing from the defendants as to what they would put in by way of evidence; and if we could have that in writing, then we have our basis for formulating our motion for summary judgment.

Chief Justice Stephens: It doesn't seem to us that that is necessary, Mr. Steffen, because it is the Government's contention, as we understand it from your argument this morning, that the licensing system which is established here, admittedly under the license agreements and under the undisputed facts of the case, is a conspiracy in violation of the Sherman Act under the Supreme Court opinion.

Now, if that is true, if you are correct in that, you are entitled to summary judgment without reference to any testimony the defendants will put in.

Mr. Steffen: Secondly, your Honor, we might make our motion for summary judgment on the broader basis to the effect that there is no evidence that they could put in—that the evidence as we have it, apart from the per se character of the situation as we now have it, would not be adequate for purposes of making a defense, and I have in mind this situation: If it is Mr. Bromley's purpose to
[fol. 46] put in evidence concerning what took place during the summer of 1929 when they entered the November licenses, it seems to me that the evidence now in is fairly conclusive and insofar as he has disclosed what he would put in by way of evidence, it would be to call Mr. McLeish or Mr. Avery, or both, and that they would testify concerning what took place during the summer of 1929.

Now, our position or argument has been that the license agreements, the whole body of agreements plus what was done under the agreements, constitute a violation in the light of the Supreme Court's opinion. I do not wish to

be understood to say that we are throwing overboard everything that went before. The whole question of preconcert, we most certainly insist upon that likewise, but what we say is that the Court has gone to the point, as we read it, of saying that the fact that we now have existent, the combination, would alone be enough, but I don't want to be put in the position of not having the advantage of all other facts in the case.

Judge Jackson: You have the advantage of everything in the case so far.

Chief Justice Stephens: The Court is not trying to put you in any position at all. You are at liberty to take any position you want to take. We understand the contention of the Government to be that regardless of what has gone [fol. 47] before, under the opinion of the Supreme Court in the Gypsum case, this licensing system, the very licenses themselves, and the facts and terms thereof—that that is ipso facto illegal—and it may well be that that is what the Supreme Court means.

We don't presume to rule on that now one way or the other. I can see, however, that there may be some merit, Mr. Bromley, in Mr. Steffen's suggestion that it would be easier to deal with this situation expeditiously if, before the motion for summary judgment was filed, there was some indication by the defendants of the testimony that they would offer so that we could have an argument on the proffer of testimony as well as upon the summary judgment at the same time.

Possibly that could be arranged by agreement between counsel without disadvantage to either side.

I may say that we have in mind in suggesting this method of procedure not merely the getting of something before the Court on which we can rule and, perhaps as a result of that, get a definition, a more precise definition, of the opinion for the guidance of counsel and possibly of this Court itself, but also of helping the situation in this jurisdiction with respect to judges, which is desperate. Here I am now, Chief Justice of the United States Court of Appeals. I can't abscond from my duties for six months—and that is what six weeks is likely to mean in this kind of a case, because the Court of Customs and Patent Appeals judges, if they are to sit at all, would have to sit as we

[fol. 48] did before, a week or 10 days a month only. In addition to that, here is the situation in the Court of Customs and Patent Appeals. Judge Ambrose McConnell is ill, has been ill since December, has gone to Cuba for his health, and whether he will be back to work within a few weeks or a few months or ever is not known. Judge Bland has resigned, and his position has not been filled. The appointment has been made, but there is no confirmation, and whether confirmation will take place isn't known.

At the present time, if the two present members of the Court of Customs and Patent Appeals who are members of this District Court were to proceed to take several weeks or several months to try this case, the Court of Customs and Patent Appeals would have to stop operating.

Now, we must do something, if we properly can, with proper protection of the rights of the parties, to expedite these proceedings. Perhaps this may not result in expedition; perhaps our ruling on motion for summary judgment and proffer will be such that there will have to be a trial—perhaps not. But it seems to us we at least ought to try to clarify the meaning of this opinion if we can, for the guidance of all concerned.

Could you make a proffer within the next week, Mr. Bromley, of what you propose to prove if the case goes forward, if the summary judgment is denied?

[fol. 49] Mr. Bromley: I don't see how I can make an offer of proof until I know the grounds of his motion. I don't care who goes first and takes the burden, but it seems to me I have got to have an indication of what his grounds are, what it is that he relies upon, before I will know what it is that I will want to put in by way of defense.

Now, on these motions, it is customary to make the motion, having answering papers, and for the mover to have opportunity to reply. He gets the same chance at my offer of proof, even though it is done in the conventional way.

Chief Justice Stephens: I am not sure that I agree with you in that, Mr. Bromley, in this particular situation, because the Supreme Court has ruled—and we are all bound by its ruling—that the Government has made a case. Now,

we must respect and carry into effect that ruling with due deference to the higher tribunal.

Now, the burden is upon you to make your case from now on. We are willing to entertain, and do entertain, a motion for summary judgment, based upon the proposition of law that under this opinion on the record as now made, without reference to the proof which might be offered from the other side, the Government is entitled to summary judgment. But if we should deny that, it seems to me that in the interest of expedition we might properly ask you to present a statement of what you expect to prove in order, partly, to find out how long this case is [fol. 50] going to take and what can be done with this extremely awkward if not desperate situation with respect to the constitution of this Court and also to determine whether or not, under the Supreme Court opinion, that proof will avail you anything as a matter of law.

If we thought it wouldn't, what is the use of having a protracted trial?

Now, I can't compel you, of course—and wouldn't presume to—to make this proffer of proof sooner than you can properly do it, and if you insist that you cannot do it coincidently with the preparation of this motion for summary judgment, of course, the Court won't require you to do so.

I do think, Mr. Steffen, in view of your argument this morning, you ought to make a motion for summary judgment here based upon the facts and evidence and the Supreme Court opinion before the Court now, to determine whether or not, as a matter of law, on what is now before the Court in view of the Supreme Court opinion, you are entitled to a summary judgment in favor of the plaintiff.

If the Court should rule that you are, why, that is the end of the case, unless the defendants then take the case to the Supreme Court to see whether or not we have correctly construed it. If we rule you are not, then we will have to determine what you have to say and whether that will avail you anything as a matter of law.

[fol. 51] What we are , in effect, asking you to do, which seems to us not unjustifiable in view of the difficulty in which the Court finds itself, is to submit to us the nature

of your defense by way of a proffer, and we would, in effect, thereby, then be ruling on what under old common law practice would be the demurrer to your proposed evidence, and if we held that the demurrer was bad, why, then, you could put in your proof; otherwise, the case would be over then.

It seems to us that some such steps are proper and, indeed, almost necessary under the present situation.

How soon can you prepare and file a motion for summary judgment based upon what is now before the Court, including the Supreme Court opinion, and be ready to argue it?

Mr. Steffan: I should say a week or possibly 10 days. This is Tuesday.

Chief Justice Stephens: We would like to have you do that just as promptly as you can. If you can do it in a week, it would be much preferable.

Mr. Steffen: We will undertake to do it in a week.

Chief Justice Stephens: The defendant would have to have some opportunity to prepare to meet it, and we ought to set a time for argument as early as possible in what is left of this month. So, suppose we grant you one week's time.

We will grant you, then, a week from today, Mr. Steffen, to file a motion for summary judgment based not upon the [fol. 52] expected proof of the defendants but upon what is before the Court now, including the Supreme Court opinion.

That will help us to test out what is the apparent meaning of the opinion, by some definitive ruling.

Can you, in the mean time—or do you think you cannot properly prepare so that we can have submitted at the same time, within a week, your proffer for the defendants, Mr. Bromley?

Mr. Bromley: Well, we will try to do it. I am under a court order taking depositions every day, Ferguson v. Ford, which takes all of my time, but we will do our best to get a proffer prepared.

Chief Justice Stephens: Very well, and you will want some time after the week to prepare to meet the argument on the summary judgment, to prepare for that. Could

we fix some day on which we will reconvene the Court for the argument, both on the proffer and on the motion for summary judgment?

A week from today will be the 15th. Couldn't we have the argument on both of these matters on the 22nd?

Today is the 8th. You, Mr. Steffen, are to have until the 15th to prepare and file and serve upon the defendants motion for summary judgment; the defendants to have until the same date to prepare and file and serve upon you their proffer of proof. Could we not settle upon the 22nd, two weeks from today, for the argument on both the summary judgment and the proffer?

[fol. 53] Mr. Steffen: It is pretty hard to get out a brief in that time, your Honor. If we had two weeks—

Chief Justice Stephens: You could prepare your brief in typewritten form. You don't have to print the brief.

Mr. Steffen: We have always done that, but just the mechanical job—we might do it by the 29th.

Chief Justice Stephens: We are pressed to get this matter disposed of if we can reach any disposition of it in this way. I have six or eight weeks of accumulated work in the Court of Appeals yet, and some of it is in Government cases which are extremely pressing—a Securities and Exchange case and a Communications Commission case, which are extremely pressing.

We will set it for the 29th, then.

Judge Jackson: Would that be all right?

Chief Justice Stephens: That is agreeable to both sides.

So, to repeat that, on the 15th the Government's motion for summary judgment will be filed and served upon the defendants, and on the same day the defendants' proffer of proof in its case in defense will be filed and served upon the Government, and on the 29th we will hear argument on both the motion for summary judgment and the proffer at 10 o'clock in this court room.

While I think it is an unnecessary formality, if it is in accordance with the practice of the District Court here, we will sign this order vacating our order dismissing the [fol. 54] Government's case. This is dated May and should be dated June.

This is the original mandate, Mr. Clerk, which I will return to you for the files of the Clerk's office, and the

original order of this Court and the original findings of fact.

Mr. Marshal, will you hand those to the Clerk?

Is there anything further, gentlemen, before we recess until the 29th at 10 o'clock in this court room?

(No response.)

Chief Justice Stephens: If not, except to say that it is a pleasure to see you all again, we will adjourn until that date.

(Whereupon, at 11:49 a.m., an adjournment was taken until 10:00 o'clock a.m., June 29, 1948.)

[fol. 55] [File endorsement omitted]

IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

[Title omitted]

PLAINTIFF'S MOTION FOR SUMMARY JUDGMENT— Filed June 15, 1948

1. Plaintiff, by its attorneys named below, upon the pleadings and all the proceedings heretofore had herein, including but not limited to all exhibits and testimony of witnesses, the admissions by counsel for the defendants, hereby respectfully move this Court, pursuant to Rule 56 of the Federal Rules of Civil Procedure, for summary judgment in its favor; or, in the alternative,

2. If summary judgment is not rendered in plaintiff's favor upon the whole case or for all the relief asked and further trial is necessary, that the Court, at the hearing on the motion, by examining the pleadings and the evidence before it and by interrogating counsel, ascertain what material facts exist without substantial controversy and what material facts are actually and in good faith controverted, and thereupon make an order specifying the facts that appear without substantial controversy and

directing such further proceedings in the action as are just.

Dated une 15, 1948.

Roscoe T. Steffen, Edward Knuff, Special Assistants to the Attorney General, Attorneys for Plaintiff.

[fol. 56] [File endorsement omitted]

IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

[Title omitted]

DEFENDANTS' U. S. GYPSUM COMPANY, ET AL., OFFER OF PROOF—Filed June 15, 1948

Pursuant to the Court's request of June 8, 1948, the defendants offer to prove the following facts by witnesses to be sworn and documents to be produced upon the resumption of the trial herein:

1. There was no agreement or understanding between the United States Gypsum Company (U.S.G), patentee, and the other defendants or any of them that they would associate themselves in a plan to blanket the industry under patent licenses and stabilize prices or issue or cause to be issued substantially identical licenses to all of the defendants or any number of them.

2. There was no agreement or understanding between USG, patentee, and the other defendants or any of them, that there would be industry-wide licensing or that the licensor, under patent license agreements, would organize the industry and stabilize prices of patented gypsum board or any other product.

[fol. 57] 3. In offering and issuing licenses to the other defendants the licensor acted independently and not by virtue of any agreement or understanding with the other defendants or any of them that prices would be fixed or stabilized throughout the industry, or that the industry would be regulated or regimented.

4. At all times the licensor was willing to license any

one manufacturer without regard to whether or not a license was taken by any other manufacturer or manufacturers.

5. At all times from 1912 to date the sole interest of the licensor in enforcing its patent rights by litigation, in the settlement of its patent litigation, in the offering and issuance of its patent license agreements and in the enforcement thereof, was to secure to itself the full benefits of its patents and not to enter into a plan or scheme to stabilize the gypsum industry. The companies which became licensees did so because they desired to settle or avoid litigation and to obtain the right to use USG's patents, considering it a business necessity to be able to do so.

6. Beginning prior to 1912 and continuing thereafter USG developed by its own research the new closed-edge gypsum board and the processes for the manufacture of the same, and obtained, on August 6, 1912, Utzman Patent No. 1,034,746 covering said improved closed-edge board and subsequently other patents covering said improved board and processes for making the same, including Utzman Patent No. 1,330,413 covering a complete machine and apparatus for making said patented board, which was issued on February 10, 1920. All of these inventions were made by employees of USG in the performance by them of research work for which they were employed, and the appli- [fol. 58] cations for and letters patent for such inventions were duly assigned to USG as its own property.

7. A description of the methods of manufacture of gypsum board before and after the Utzman inventions, together with the costs of production and market conditions resulting in the demand of the trade for the improved closed-edge board to the exclusion of the open-edge board will be shown.

8. During the period from the commencement of the production of gypsum board under the Utzman patents until the granting of the licenses thereunder and continuing thereafter until the commencement of this suit open-edge board was unable to compete with the patented closed-edge board. The acceptance by the trade of the closed-edge patented board and the demand for it in the building industry supplanted the use and sale of the open-edge board.

9. The claims of said patents were infringed by the Bestwall Manufacturing Company (Bestwall), the American Gypsum Company (American), the Universal Gypsum and Lime Company (Universal), the National Gypsum Company (National), and the Niagara Gypsum Company (Niagara), all manufacturers of gypsum board in the Eastern area of the United States and by other manufacturers of gypsum board in such area, which infringements were compelled by the superior quality of the patented board and the demands of the trade therefor. The extent of such infringement and the cost to patentee in protecting the claims of its said patents and its damages suffered by reason of such infringement will also be shown.

10. USG, between 1917 and 1928, instituted suits for infringement against Bestwall, Beaver Products Company, Inc. (Beaver), American, Universal and National. In 1921 the United States Circuit Court of Appeals for the [fol. 59] Seventh Circuit, in a suit against Bestwall, held the patents of USG valid and infringed. Beaver, in the course of such litigation, had acquired Bestwall, and USG, by supplemental bill filed in the District Court of the United States for the Northern District of Illinois, Eastern Division, sued both of these companies for infringement, in which suit a final judgment was entered in 1925 finding that said patents were infringed and enjoining and restraining the defendants from further infringement and directing an accounting for damages against the defendants.

11. USG, in addition to commencing such infringement suits, notified Niagara and other infringers of said patents that unless they ceased infringement, suit would be commenced against them for damages and for appropriate relief to prevent future infringement. In 1927 it also notified the Texas Cement Plaster Company (Texas), which had equipped its plant to make a closed-edge board, of USG's patent rights and that suit for infringement would be commenced if it produced a closed-edge board in its newly equipped plant. In the same year it notified the Atlantic Gypsum Products Company (Atlantic), which was about to equip its new plant to manufacture gypsum board, of USG's patent rights on closed-edge board and the processes for making the same.

12. Prior to the last mentioned judgment for infringement Beaver, by its president, A. S. Blagden, entered into negotiations for settlement of said infringement suits with S. L. Avery, president of USG, which negotiations continued until a final settlement was reached on July 29, 1926. At a meeting in December 1925 Mr. Avery specified as his terms of settlement the payment of damages for Beaver's infringement, acknowledgment of the validity of USG's [fol. 60] patents, payment of royalties, and the right in USG to fix the prices of patented board to be made and sold by Beaver. Settlement was made between the two companies on July 29, 1926, under the terms of which Beaver paid USG the sum of $250,000 cash damages and further agreed to pay to it in settlement of said claim and for the privilege of using said patents and making and selling patented board thereunder an amount equivalent to 5% of its selling price of all board sold by it until August 6, 1929, the date of the expiration of said Utzman patent No. 1,034,746, and thereafter an amount equivalent to 1½% of its selling price of all board sold by it from August 6, 1929, until February 10, 1937, the date of the expiration of said patent No. 1,330,413. As a part of the settlement USG, as licensor, and Beaver, as licensee, entered into the license agreement of July 29, 1926 (Gov. Ex. No. 1). The terms fixed by USG as a basis for the settlement and the license agreement with Beaver were the same terms demanded of each subsequent licensee of USG. USG did not deviate from those terms in any of its license agreements.

13. The license so granted to Beaver was separately and independently negotiated and entered into between USG, as licensor, and Beaver, as licensee, and there were no agreements or understandings to issue substantially identical licenses to any other member or members of the industry or that other members of the industry would take similar licenses under said patents.

14. The memorandum of December 12, 1925, sent by Mr. Blagden, president of Beaver, to Mr. Avery, president of USG, was not accepted or approved by Mr. Avery and was never at any time discussed by him with Blagden or anyone else, nor was the same referred to by either Avery [fol. 61] or Blagden during or after their negotiations. Mr. Avery never entered into any agreement or under-

standing with Mr. Blagden with respect to anything contained in such memorandum and particularly never agreed with him or anyone else that Beaver or Blagden would agree to use or use its or his best efforts to induce other members of the industry to accept similar licenses from USG, nor did he authorize it or him to do so.

15. Blagden of Beaver was not at any time authorized to represent USG or Avery in negotiations with other manufacturers of gypsum board. Any efforts which Blagden may have made to induce such other manufacturers to become licensees of USG were independent efforts of Blagden and were made without any authorization from USG or Avery, and were not the result of any agreement or understanding among the defendants or any of them.

16. Blagden's letter to Avery of October 1, 1926 (Gov. Ex. No. 189, R. 5349), in which he referred to the "entente cordial" between their two companies and stated that "if we play the game right it should bring about big things" was merely an expression of Blagden's opinion that it would be advantageous for USG and Beaver to live up to the terms of their license agreement, and was not understood by Avery or by Blagden as referring to any agreement or understanding among the defendants or any of them to fix prices or stabilize the gypsum industry.

17. Frank J. Griswold, general manager of American, was not at any time authorized to represent USG or Avery in negotiations with other manufacturers of gypsum board. While USG's infringement suits were pending [fol. 62] against American (September, 1925-November, 1929), Griswold's correspondence and conferences with representatives of various unlicensed manufacturers of gypsum board with respect to the possible acceptance by those manufacturers of licenses from USG did not receive any authorization from USG or Avery and did not result from any agreement or understanding among the defendants or any of them. Such correspondence and conferences were independently undertaken and conducted by Griswold in an attempt to obtain concessions and more favorable terms than those accorded by USG to other licensees if and when American should be able to settle its pending litigation and enter into a license agreement with USG, or were prompted by Griswold's activities in a proposed merger of certain

companies in which proposed merger neither USG nor Avery was interested.

18. Eugene Holland, who became president of Universal in 1928, was not at any time authorized to represent USG or Avery in negotiations with other manufacturers of gypsum board. Any efforts which Holland may have made to induce such other manufacturers to become licensees of USG were independent efforts of Holland, and were made without any authorization from USG or Avery, and were not the result of any agreement or understanding among the defendants or any of them.

19. In September 1926 Universal on its own initiative and without the intervention of any other party entered into negotiations with USG to settle the claim which the latter had against the former for infringement of the Utzman patents. In these negotiations Mr. Avery, on behalf of USG, insisted upon the same terms of settlement which he had specified in the negotiations with Beaver. On September 17, 1926, after protracted negotiations, an agree-[fol. 63]ment was reached by the parties under the terms of which Universal agreed to pay to USG in settlement of said claim the sum of $35,000 and 5% of licensee's selling price of all gypsum board manufactured and sold by it until August 6, 1929, and 1½% of such selling price from August 6, 1929, to February 10, 1937. On the same date a license agreement was entered into between the parties (Gov. Ex. No. 2).

20. This license was separately and independently negotiated and entered into between USG, as licensor, and Universal, as licensee, and there were no agreements or understandings of any kind to issue substantially identical licenses to any other member or members of the industry or that any other member of the industry would take a similar license under said patents. The negotiations were conducted soley between the parties to the license and involved no one else. Neither Blagden nor Griswold nor any other person or company except the parties to said license had anything to do with the negotiations for or the execution of the same.

21. In the spring of 1927 Atlantic, through its then president, applied to USG for a license under said patents in connection with a new plaster mill and board plant which

the former was installing at Portsmouth, New Hampshire. Negotiations between the two companies resulted in the execution on March 5, 1927, of a license agreement similar in terms to that of Beaver, except that there were no provisions for settlement of any claim for damages as Atlantic was not an infringer of said patents.

22. Texas, having equipped its plant to make a closed-edge board, applied for and received a license from USG under said patents similar in terms to that of Atlantic. [fol. 64] This license was executed on April 18, 1927.

23. The licenses so granted to Atlantic and Texas were each separately and independently negotiated and entered into between USG, as licensor, and Atlantic and Texas, respectively, as licensees, and there were no agreements or understandings of any kind to issue substantially identical licenses to any other member or members of the industry or that any other member of the industry would take a similar license under said patents. The negotiations were conducted solely between the parties to each license and involved no one else.

24. In January 1928 Certain-teed Products Corporation (Certain-teed), then making an open-edge board, had agreed to purchase the assets of Beaver, the consideration for which purchase was to be paid to the stockholders of Beaver, but under which arrangement Certain-teed had refused to assume the license agreement of Beaver with USG. USG thereupon brought an action in equity in the United States District Court for the Northern District of Illinois, Eastern Division to protect its claim of over one million dollars for prior infringement of its Utzman patents by Beaver. In order to prevent the entry of an order restraining the transfer of the proceeds of the sale to the stockholders of Beaver, Certain-teed was required to post a bond in the sum of one million dollars. Negotiations for settlement of this litigation by means of a license to Certain-teed under the Utzman patents continued intermittently from the time the bond was posted on March 28, 1929, until a settlement was finally arrived at in May 1929, which negotiations were carried on strictly between the parties involved.

25. With the pending litigation both for infringement of USG's patents against other members of the industry

[fol. 65] and of the suit to enjoin and the attendant bad feeling resulting therefrom, a price war broke out in the industry during which gypsum plaster products were selling below the cost of most of the companies manufacturing and selling such products.

26. By January 1929 American, National, Ebsary Gypsum Company (Ebsary) and Niagara had each inquired of USG for the terms upon which Mr. Avery would grant a license and for license agreements containing terms acceptable to USG. USG submitted to each of them forms of license agreements containing the terms originally specified by Mr. Avery as his terms of settlement. All of these companies except Ebsary were at the time infringing the Utzman patents. These inquiries were made to USG independently of one another.

27. On May 16, 1929, National, having obtained from USG a form of license agreement satisfactory to USG, executed the same and mailed it to USG. This agreement (Gov. Ex. No. 3) was substantially the same as the licenses granted to other licensees except for the amount of damages for infringement, which was different in each case. In this connection National agreed to pay to USG in settlement of the latter's claim for damages an amount equal to 5% of the selling price of licensee of all gypsum board, whether patented or unpatented, manufactured and sold by licensee until August 6, 1929, and thereafter 1½% of such selling price until February 10, 1937, and in addition thereto an amount equal to 3½% of such selling price from August 6, 1929, until said 3½% aggregated the sum of approximately $180,000.

28. Three unlicensed manufacturers, Certain-teed, Ebsary and Niagara were present at the meeting of certain licensed and unlicensed manufacturers in Chicago on May [fol. 66] 21, 1939, and after protracted negotiations, took licenses under said patents from USG. During the period of this meeting separate negotiations independent of one another were had with each of these companies, resulting in the Certain-teed case in a complete settlement of the litigation then pending, its assumption of Beaver's obligations with respect to past infringement, and the taking of a license (Gov. Ex. No. 4). In the case of Ebsary the matter was discussed with the company and its counsel, as a result of

which Ebsary agreed to take and did take a similar license (Gov. Ex. No. 5) except there was no claim for damages to be settled. Mr. Reeb of Niagara, in separate negotiations, settled USG's claim for infringement by agreeing to pay to USG an amount equal to 5% of the selling price of licensee of all gypsum board, whether patented or unpatented, manufactured and sold by licensee until August 6, 1929, and thereafter 1½% of such selling price until February 10, 1937, and in addition thereto an amount equal to 3½% of such selling price from August 6, 1929, until said 3½% shall aggregate the sum of $27,650.85. Niagara was granted a license under said patents, similar to the other licenses except for the amount of the claim for damages.

29. The licenses so granted to National, Certain-teed, Ebsary and Niagara were separately and independently negotiated and entered into between USG, as licensor, and National, Certain-teed, Ebsary and Niagara, respectively, as licensees. There was no agreement or understanding with USG to issue substantially identical licenses to National, Certain-teed, Ebsary and Niagara upon the condition that they or any two or more of them would take such licenses or that other members of the industry would take [fol. 67] similar licenses under said patents, each of them being free throughout the entire negotiations for said licenses to take or not to take a license according to its own individual determination.

30. It was not the fact that Mr. Avery or USG were not interested in negotiating settlement with others in the industry or granting such other licenses unless all board manufacturers or any one or more of them was included. Neither Mr. Avery nor any one on behalf of USG at any time stated or made it clear to any one that, if price-fixing could not be worked out or continued under the Utzman patent, there were other patents available for the purpose, nor was there any agreement or understanding at any time among the defendants or any of them to the effect that the expiration of the Utzman patent was not a practical reason for continuing the conflict in the industry.

31. On May 23, 1929, USG disclosed to its licensees the existence of the new bubble invention, which was a method of making a lighter and cheaper gypsum board by introducing soap foam in place of sawdust, for which an appli-

cation for letters patent had been filed. Sawdust was not only scarce and expensive but its use resulted in a heavy board costly to dry, ship and install. USG offered a license under the new bubble invention to any of its licensees who might be interested in taking it.

32. During the negotiations for the bubble license in the summer of 1929, Holland, president of Universal, charged USG with infringement of Universal's starch patents.

33. Universal's starch patents (the Haggerty and Hite patents) covered, respectively, gypsum board employing starch or a cooked carbohydrate in the core of the board [fol. 68] to insure a good bond between the core and the paper covering sheets (thus solving the "peeler" trouble in the gypsum board industry and making possible high speed production), and a heat insulating material and method of making the same. It was impossible to make a satisfactory gypsum board without using starch and the starch patents.

34. Upon investigation, Avery found that Holland's charge of infringement was well founded, and that USG was in fact infringing Universal's starch patents and had subjected itself to substantial claims for damages by so doing. USG accordingly determined to purchase the starch patents from Universal if it could, and thus relieve itself of substantial claims for infringement. As a result of negotiations between Holland and Avery, USG agreed to purchase and did purchase the Haggarty and Hite patents. Such negotiations were separately and independently conducted by Avery and Holland, and none of the other defendants was involved therein. Since Universal was in receivership, it became necessary to present the entire transaction to seven United States District Courts in which the receivership was pending, wherein the sale to USG by the receivers of Universal was approved. The sale of the starch patents was advantageous to the receivership because it provided Universal with funds which in time helped it to reorganize.

35. Following the purchase of the starch patent by USG from Universal, USG proposed to license its licensees under the bubble and starch patents. The terms and conditions of the license were discussed at a meeting in August, 1929, at which some of the licensees were present, and it was

finally left that USG would give the matter further consideration and submit a license containing terms and con- [fol. 69] ditions satisfactory to it. Each of the licensees was free to accept or reject the license according to its own independent determination.

36. The licenses, in the form of a single document replacing the prior license of the licensee and including the starch patents and bubble board applications, were subsequently mailed to the licensees. Niagara on October 8, 1929, Certain-teed on October 15, 1929, National on October 17, 1929, Ebsary on October 18, 1929, and Atlantic on October 21, 1929, accepted and executed such licenses with USG (Gov. Exs. 12, 10, 9, 11, and 7, respectively).

37. These licenses were separately and independently accepted by Niagara, Certain-teed, National, Ebsary, and Atlantic, respectively, as licensees. There was no agreement or understanding with USG to issue such licenses to them upon the condition that they or any two or more of them would accept identical licenses or that other members of the industry would take similar licenses under such patents. The receivers of Universal did not accept the license until the sale had been approved, and acted pursuant to the order and directions of the said District Courts which had been fully advised of the entire transaction. Neither American nor Texas nor Kelley Plasterboard Company (Kelley) had at this time accepted such a license.

38. On November 5, after approval of the sale, the starch patents were assigned to USG and on the same date the receivers of Universal, as authorized by court, accepted a license (Gov. Ex. No. 6).

39. On November 25, 1929, American settled all of its litigation with USG and accepted a license (Gov. Ex. No. 13).

40. Kelley accepted a license (Gov. Ex. No. 15) in April [fol. 70] of the following year. Texas, a licensee under the Utzman patents, did not accept a license under the starch and bubble patents until 1937, when the machine patent for making closed-edge board expired. This license was executed on February 10, 1937 (Gov. Ex. No. 8).

41. These last four licenses were each separately and independently negotiated and entered into between USG, as licensor, and said receivers, American, Kelley and Texas

respectively, as licensees, and there were no agreements or understandings of any kind with USG to issue identical licenses to them upon the condition that they or any two or more of them would accept such licenses or that other members of the industry would take similar licenses under said patents, but each of them was free to take or not take the license according to their or its own individual determination except only in so far as said receivers were acting under the order of court.

42. There was not any agreement or understanding among the defendants or any of them that the starch or bubble board patents of USG would be used as a subterfuge to support price control after the expiration of the closed-edge patent, and it is not the fact that those patents were used for any such purpose. The use of those patents by each manufacturer was essential in order to avoid possible suits for infringement and in order to obtain the advantages which resulted from the elimination of sawdust from the gypsum core, and from the elimination of the "peeler" problem, and it was for those reasons that each licensee accepted a license under such patents.

[fol. 71] 43. Newark Plaster Company (Newark) acquired the assets and business of Kelley and became the assignee under Kelley's license in 1939. The Celotex Corporation (Celotex) entered the gypsum industry for the first time when it acquired the assets and business of American in 1939, and became the assignee of its license. Neither of these companies had anything to do with the negotiations or execution of any of the licenses hereinbefore mentioned.

44. In the early 1930's, for the purpose of meeting competition from fiber insulation board, USG developed metallized gypsum board consisting of board with metallic foil. At varying times in 1934 and 1935, each of the licensees of USG, except Texas, signed a license agreement with USG which permitted it to manufacture and sell metallized board under USG's patent rights. Each of such license agreements was separately and independently negotiated by and between the licensor and licensee, and none of such agreements resulted from any agreement or understanding among the defendants or any of them. Each of such licensees accepted its license with the intention to manufac-

ture and sell metallized board under the metallized board licenses.

45. In order to meet the building code requirements found in many localities that a wall structure (the base plus applied coat of plaster) must stand a one-hour fire test, USG developed and had patented during the early 1930's a product called perforated gypsum lath which contained perforations of such size and spacing as to permit a wall structure composed thereof to withstand the one-hour test. When plaster is applied to this type of lath some of it passes through the perforations and forms a mechanical key, [fol. 72] which because of the size and spacing of the holes, supports the coat of plaster with the result that fire, under standard fire test requirements, may be withstood for an hour. USG's perforated lath was the first gypsum lath ever to pass that test. At various times during the years 1936-1939, USG granted licenses under the perforated lath patent to Certain-teed, American Ebsary, Kelley and Newark. The earlier of such licenses established minimum prices on perforated lath made and sold by such licensees and provided for the payments of small royalties for the use of the patent; the later licenses were royalty-free. Each of such licenses was independently and separately negotiated by and between the licensor and licensee, and none of such licenses resulted from any agreement or understanding among the defendants or any of them. Each of such license agreements was made in good faith by the parties thereto, and not with the understanding or belief on the part of either of such parties that the perforated lath patent was void.

46. The provisions in the license agreements whereby each licensee agreed to pay as royalty a stipulated percentage of the selling price of all board of every kind, whether or not it was made by patented processes or embodied product claims, were intended as compensation for the privilege of using any or all of the patents as well as a means of providing for the installment payment of damages for infringement for such of those licensees as had infringed the patents, and were insisted upon by the licensor to insure royalty payments due it under the licenses. Such provisions were not inserted in the licenses for the purpose of elimi-

[fol. 73] nating the production of unpatented board, nor did they have that effect.

47. The provision in the license agreements forbidding the transfer of the license by the licensee without the licensor's consent was not inserted for the purpose of insuring that the licenses should be industry-wide, but was inserted for the purpose of insuring that a licensee could not avoid the covenants of the license by the sale of its business or transfer of its license and to afford ordinary and customary protection to the licensor in the transfer of licenses under its patents.

48. The provisions in the license agreements to the effect that the licensee's books of account were open to the licensor, that the licensee was entitled to any more favorable terms granted to any other licensee, for cancellation and other related provisions, were not inserted in the licenses for the purpose of maintaining industry-wide license agreements but for the purpose of protecting the licensor, on the one hand, and the licensee, on the other, with respect to those matters and things common to entering into such contractual relations.

49. USG at all times involved in this suit was engaged in the manufacture and sale of its patented gypsum board and because it was deemed essential by it to do so provided in each of its issued patented licenses that it should have the right to fix the minimum price at which any licensee might sell the patented product. The provision that any minimum price established by the licensor should not be more than the price at which the licensor determined to sell the pat-[fol. 74] ented board to its own like trade in the same market was included solely for the purpose and with the effect of giving assurance that the right reserved by the licensor would not be used to establish a non-competitive minimum price for the licensee. Pursuant to this reservation minimum price bulletins were sent out by USG, as licensor, to its licensees except during the period from August 6, 1929, the date of the expiration of the Utzman Patent No. 1,034,746, to November 5, 1929, the effective date of the so-called November 1929 licenses, and except in the case of the licensee, Texas, during the period from August 6, 1929, to February 10, 1937, the date Texas' first license

agreement expired and it acquired a license in substantially the form of the so-called November 1929 licenses. Whether or not the licensor exercised its reserved right to establish minimum prices, and what those prices would be if the right were exercised, was at all times a matter for the sole determination of the licensor; and USG would not at any time discuss such matters with its licensees or prospective licensees or any of them.

50. Neither as a result of the license agreements nor bulletins nor otherwise were the prices of patented gypsum board at any time raised to arbitrary and non-competitive levels or established and maintained at unreasonably high levels.

51. All of the provisions of the price bulletins with respect to terms and conditions of sale had direct relation to the price for such products fixed by the licensor and were not promulgated for the purpose or with the effect of regimenting the industry, but solely for the purpose of defining [fol. 75] the minimum price fixed by the licensor in the license agreements, and providing for its maintenance on the patented board.

52. The so-called rebate provisions of the price bulletins were issued solely for the purpose of insuring maintenance by the licensees of the minimum price fixed by the licensor and protecting it against indirect reductions by means of secret rebates made for the purpose of reducing the price charged by such licensees below the minimum price, and not for the purpose or with the effect of controlling the prices charged by the licensees for unpatented products.

53. In 1932 USG set up as a department a wholly owned corporation called Board Survey Company. Its function was to receive complaints of license violations, to investigate the facts, call them to the attention of the licensee involved, and upon occasion to the attention of USG. The licensees had no part in the formation, management or operation of Board Survey Company, and its formation, management and operation by USG was not the result of any agreement or understanding among the defendants or any of them. The operations of Board Survey Company were confined to efforts to insure compliance with the licenses and price bulletins and were undertaken solely to protect the rights of USG under the license agreements and

patents and its activities were so limited. Board Survey was dissolved in 1937 and no other agency took its place.

54. Defendants did not by agreement or otherwise eliminate the production of open-edge board, and there was not any agreement or understanding among defendants or any of them that the production of such board should be dis- [fol. 76] continued. Defendants were free at all times to make and sell any type of gypsum board, including open-edge board. The discontinuance of the manufacture of open-edge board was entirely due to economic reasons.

55. Both seconds and No. 2 board were boards made under USG's patents. There was no agreement or understanding among the defendants as to the price to be fixed for the sale of such boards, nor was there any agreement or understanding that such boards would not be manufactured.

56. The license agreements were not executed with any intention to eliminate jobbers. There was no agreement or understanding among the defendants or any of them to eliminate jobbers.

57. The discontinuance of the jobbers' discount provided for in the price bulletins resulted solely from the exercise by USG of its right to establish a price for a patented product. USG did not have any agreement or understanding with the other defendants or any of them that such discount would be discontinued.

58. There was not any agreement or understanding among the defendants or any of them that prices of plaster or any other unpatented gypsum product would be raised, fixed or stabilized, nor did the defendants by any concert of action or otherwise raise, fix or stabilize any such prices.

59. Defendants' prices for plaster and other unpatented products have at all times been highly competitive, and were not in any way affected by the minimum prices established by the licensor for the patented board. The so-called rebate provisions of the price bulletins were not promulgated for the purpose, and did not have the effect of fixing [fol. 77] or stabilizing the prices of plaster or other unpatented products; nor did the defendants by complaints addressed to Board Survey Company or by any of its activities fix or stabilize prices of plaster or other unpatented products.

60. There was not any agreement or understanding of any kind between the licensor and any licensee by which any manufacturing distributor or other purchaser of board was required to adhere to any price or term or condition of sale upon the resale of any of the products bought from any of the defendants. There was not any agreement or understanding among the defendants, or any of them, that they would fix or control the resale prices charged by manufacturing distributors or other purchasers for products purchased from any of the defendants, nor did the defendants or any of them fix or control any such resale prices.

61. The principal patents of USG under which license agreements were issued were basic patents and of such scope as to have great commercial value. It was essential that each manufacturer of gypsum board should have the right to use said patents in order to be competitive with those who had such rights.

62. The license agreements hereinbefore referred to were negotiated at arms length and were bona fide agreements entered into in good faith and intended to bind each party thereto to the promises made therein. They were not sham agreements executed to effectuate any purpose or objective [fol. 78] not expressly set forth in the agreement.

June 15, 1948.

Respectfully submitted, Bruce Bromley, Murray W. McEniry, Hugh Lynch, Jr., Attorneys for United States Gypsum Company, Sewell L. Avery and Oliver M. Knode.

[fol. 79] [File endorsement omitted]

IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

[Title omitted]

OFFER OF PROOF BY THE DEFENDANT, THE CELOTEX CORPORATION—Filed June 15, 1948

The Celotex Corporation, pursuant to the request of the Court in this cause, advises the Court that upon hearing of this cause it intends to offer and will, if permitted, offer

in its defense competent evidence to prove the facts stated in its answer, including the following:

Celotex entered the gypsum industry for the first time in 1939, when it acquired the assets of The American Gypsum Company, in order to broaden the line of products which it could offer for sale in competition with other manufacturers in the building materials industry. In acquiring such assets, Celotex was required to take over the license between American and United States Gypsum Company which had been entered into by American many years before, on November 25, 1929.

By the terms of the license, American had agreed not to sell all of its assets without requiring the purchaser to assume all of the obligations of American under the license and to agree to be bound by all of the terms and conditions of the license, including the assumption of the claim which United States Gypsum Company had against American for damages for infringement of certain patents.

[fol. 80] In the nature of the case, Celotex had no part in the early negotiations with respect to this or any other license involved in this case. The observance by Celotex of any of the terms and provisions of the license, as charged in this case to have been unlawful or improper, was not the result of any voluntary act on the part of Celotex but constituted solely the observance of contractual relations and obligations which it inherited from American and which it was legally obligated to observe unless it sought to escape the observance thereof on the ground of the invalidity of the terms of the license. Upon Celotex becoming obligated to carry out the terms of the license, it was advised by counsel that the provisions of the license were valid and enforceable and that Celotex was legally obligated to observe the same.

During the sixteen months period to August 15, 1940, the date of the filing of the complaint in this cause, Celotex continued, in the bona fide belief that it was obligated legally so to do, to observe the terms of the license. Since July 8, 1941, when Celotex was advised that the Haggerty patent had expired, Celotex had not observed any price limitation under the license, and its observance of the terms of the license has been solely with respect to payments of the royalties payable thereunder in order to prevent the

cancellation of the license to use the patents thereunder which Celotex was advised and believed and still believes are valid.

For a concise statement of the state of the record with respect to Celotex, reference is made to the Supplemental Brief for Celotex filed in the Supreme Court of the United States in this case.

[fol. 81] Respectfully submitted, Walter G. Moyle, Ralph P. Wanlass, 1109 Warner Building, Washington 4, D. C., Attorneys for The Celotex Corporation.

Andrew J. Dallstream,
Norman Waite,
Fredric H. Stafford, 231 South LaSalle Street, Chicago 4, Illinois, of Counsel.

[fol. 82] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

Holding a Three Judge Court

Civil Action No. 8017

UNITED STATES OF AMERICA, Plaintiff,

v.

UNITED STATES GYPSUM COMPANY; NATIONAL GYPSUM COMPANY; Certain-teed Products Corporation; The Celotex Corporation; Ebsary Gypsum Company, Inc.; Newark Plaster Company; Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company; Sewell L. Avery; Oliver M. Knode; Melvin H. Baker; Henry J. Hartley, Frederick G. Ebsary; and Frederick Tomkins, Defendants.

Reporter's Transcript of Hearing on Motion for Summary Judgment—June 29, 1948

Court Room, U. S. Court of Appeals Building,
Washington, D. C.

Tuesday, June 29, 1948.

The above entitled cause came on for oral argument on Plaintiff's Motion for Summary Judgment and Defendants'

Offers of Proof at 10:00 o'clock a.m., pursuant to adjournment, before Honorable Harold M. Stephens, Honorable Finis J. Garrett, and Honorable Joseph R. Jackson, sitting as the District Court of the United States for the District of Columbia.

[fol. 83] APPEARANCES:

On behalf of the plaintiff:

Roscoe T. Steffen, Esq., and Edward Knuff, Esq., Special Assistants to the Attorney General.

On behalf of the defendants:

Bruce Bromley, Esq., Hugh Lynch, Jr., and Murray W. McEniry, Esq., for the defendants United States Gypsum Company, Sewell L. Avery and Oliver M. Knode.

Nicholas J. Chase, Esq., for the defendants National Gypsum Company and Melvin H. Baker.

Charlton Ogburn, Esq., for the defendant Certain-teed Products Corporation.

Ralph P. Wanlass, Esq., for the defendant The Celotex Corporation.

James O'Donnell, Jr., Esq., for the defendants Newark Plaster Company and Frederick Tomkins.

D. I. Johnston, Esq., for the defendant Samuel M. Gloyd, doing business under the trade name of Texas Cement Plaster Company.

[fols. 84-86] PROCEEDINGS

* * * * * * *

[fol. 87] COLLOQUY BETWEEN COURT AND COUNSEL

Chief Justice Stephens: Now, gentlemen, how much time do you wish to argue this motion for summary judgment and this proffer?

Mr. Steffen: I should think your Honor, in view of the [fol. 88] day, it would be a little slow, maybe an hour or an hour and a half.

Chief Justice Stephens: I think we have all read the briefs of the Government. We haven't had time to read the defendants' briefs as they were just presented. They are not extensive.

Suppose we set an hour and a half on a side tentatively, gentlemen. However, we will not restrict you too seriously as to time.

Will you proceed, Mr. Steffen, taking such time for opening as you wish and leaving such time for closing as you wish.

Mr. Justice Jackson inquires whether or not the offer of proof was formally filed in the clerk's office.

Mr. Bromley: Yes, your Honor.

Chief Justice Stephens: Was the Celotex offer formally filed? Have you gentlemen examined into that? That is correct, is it not, Mr. Watts?

The Clerk: I have just received the defendants' offer of proof from the Gypsum Company. Ebsary filed several days ago.

Chief Justice Stephens: Who filed several days ago?

The Clerk: Ebsary.

Chief Justice Stephens: I haven't seen that. I have had handed to me only Celotex and the defendants' offer, not Ebsary's. The clerk's office should furnish that to the [fol. 89] judges immediately when it is received.

Mr. Steffen: We have not seen it either, your Honor.

Chief Justice Stephens: You should furnish the Government, if you have extra copies, and each of the judges, the Ebsary offer of proof. When were they received?

The Clerk: I guess it is Celotex I had in mind, Judge.

Mr. Chase: If your Honors please, as local counsel for National Gypsum Company, I want to advise the Court that Mr. Finck is unable to be here today and expresses his regrets.

In connection with the motion for summary judgment, which is before the Court, National Gypsum Company joins in opposition to the granting of that motion.

With respect to the proffer of proof, the National Gypsum Company wishes to stand on its answer as drawn, reserving such right as it may have to offer proof in the event there is a resumption of trial.

Chief Justice Stephens: Very well. Anything else preliminary?

Mr. O'Donnell: If your Honor please, in behalf of the individual defendant, Mr. Frederick Tomkins, and the Newark Plaster Company, we wish also to join at this time

in the defendants' opposition to motion for summary judgment and also to join with the defendants' offer of proof.

Mr. Bromley: May it please the Court, I think perhaps I should call your Honors' attention to the fact that the [fol. 90] offer of proof as filed is signed only by counsel of United States Gypsum Company, Sewell L. Avery and Oliver M. Knode, and, as I understand it, other counsel are orally going to state whether they adopt it as theirs or not.

Judge Garrett: There was a letter accompanying it, I think.

Mr. Bromley: Yes, your Honor.

Chief Justice Stephens: Are each of the defendants represented this morning?

United States Gypsum Company is.

Is Certain-teed represented?

Mr. Ogburn: Yes, your Honor.

Chief Justice Stephens: You represent Certain-teed?

What is your position?

Mr. Ogburn: We join in this proffer of proof.

Chief Justice Stephens: Made by the defendants U. S. Gypsum Company, et al.; and you also resist the motion for summary judgment?

Mr. Ogburn: Yes, sir.

Chief Justice Stephens: And who represents Celotex?

Mr. Vanlass: If your Honor please, The Celotex Corporation joins in the opposition to the motion for summary judgment and adopts the general proffer of proof on behalf of defendants, which we have supplemented by an individual proffer on behalf of Celotex.

[fol. 91] Chief Justice Stephens: Ebsary?

Is Ebsary represented?

(No response.)

Mr. Knuff: They don't have local counsel.

Chief Justice Stephens: J. S. Rippey, Frederick G. Ebsary. They are not present this morning?

Mr. Bromley: He is not here, sir.

Chief Justice Stephens: Newark?

Mr. O'Donnell: Your Honor, I made a statement on behalf of Newark.

Chief Justice Stephens: Oh, yes.

Mr. Johnston, we note your presence.

Mr. Johnston: If Your Honors please, we join U. S. Gypsum in resisting the motion and join in the offer of proof.

Chief Justice Stephens: The individual defendant Avery is represented, of course. Oliver K. Knode; Melvin H. Baker, he was also United States Gypsum Company, was he not?

Mr. Bromley: Mr. Baker was National.

Chief Justice Stephens: National.

The statement has just been made for National.

Mr. Bromley: Yes, sir.

Chief Justice Stephens: Dahlberg is out of the case.

Hartley. Who represents Hartley individually?

Mr. Ogburn: Hartley was represented, your Honor, by Mr. Adams. He has not been an officer for many, many years, I think, of Certain-teed. I don't know whether Mr. [fol. 92] Adams still represents them or not.

Chief Justice Stephens: And Frederick G. Ebsary is absent.

Who represents the individual Frederick Tomkins?

Mr. O'Donnell: I do, your Honor.

Chief Justice Stephens: You may proceed, Mr. Steffen.

Opening Argument on Behalf of the Plaintiff

By Mr. Steffen:

Mr. Steffen: This is an argument, your Honor, upon the plaintiff's motion for summary judgment, which was duly filed on the 15th day of the month in accordance with the Court's direction.

Upon such an argument we assume that the rule as stated in the Miller case in this jurisdiction would apply in determining what is necessary to make out a defense under summary judgment, and that is that summary judgment will be granted only when it appears that there is no genuine issue as to any material fact.

The citation on page 23 is probably as good a citation or as good a statement of the rule as you will find. There the court says:

> "It must appear that there is no substantial evidence on it, that is, either that the tendered evidence is in its nature too incredible to be accepted by reasonable

[fol. 93] minds, or that conceding its truth, it is without legal probative force."

It will be our purpose to examine the defendant's proffer of proof in this case in the light of that statement, and I think we may show your Honors either that the evidence is too incredible to be believed or—and this is by all odds the largest category—that conceding its truth, it is without legal probative force.

Chief Justice Stephens: What page did you say that is?

Mr. Steffen: That is on page 23 of the Government's brief, and that, I think, is court statement as to the purport of Rule 56 of the Federal Rules under which we are proceeding with our motion for summary judgment.

That brings me to the substantive argument.

If your Honors please, I should like to argue first the law of the case as we see it, and secondly, to take up each of the offers of proof that the defendants have made and to determine whether they fit or don't fit into this picture.

Now, the law of the case, as we said last June 8, informally, I think has been said by the United States Supreme Court in its statements in the Gypsum case, and in particular I want to refer your Honors to the language on pages 34 and 35 of the slip opinion.

[fol. 94] I call your Honors' attention particularly to the language at the top of page 35, about 5 lines down.

Chief Justice Stephens: Of the Supreme Court opinion?

Mr. Steffen: Of the slip opinion, yes, your Honor.

It says:

> "Even in the absence of the specific abuses in this case, which fall within the traditional prohibitions of the Sherman Act, it would be sufficient to show that the defendants, constituting all former competitors in an entire industry, had acted in concert to restrain commerce in an entire industry under patent licenses in order to organize the industry and stabilize prices."

That, we take it, is perhaps the best summary in the opinion of the law of the case and it, if I may so state, seems to us to say substantially what we argued when the case was here before.

We take that to say that if we can show that the defendants, constituting all former competitors, in an entire industry, acted under patent licenses to organize the industry and stabilize prices, that the combination is unlawful.

[fol. 95] Now, the first argument that would meet that point is that the General Electric case give protection to the defendants for what they have done, and we have, in our brief, taken that up on page 24. I would refer your Honors particularly now to the language of Mr. Justice Reed on page 34 at the foot of the page. He says:

> "The General Electric case affords no cloak for the course of conduct revealed in the voluminous record in this case."

Then, this next language is important:

> "That case gives no support for a patentee, acting in concert with all members of an industry, to issue substantially identical licenses to all members of the industry under the terms of which the industry is completely regimented, the production of competitive unpatented products suppressed, a class of distributors squeezed out, and prices on unpatented products stabilized."

Then, to carry on, the last sentence on page 35 seems to us to hit the other idea expressed in the General Electric case. That is, that price control would be permitted where it was normally and reasonably adapted to secure pecuniary reward to the patentee for his patent.

The language here is just as cold as it can be, and it says:

> [fol. 96] "The rewards which flow to the patentee and his licensees from the suppression of competition through the regulation of an industry are not reasonably and normally adapted to secure pecuniary reward for the patentee's monopoly."

That states our basic proposition, that what we have to establish here beyond any reasonable doubt, or, at least without any genuine issue as to a material fact, is that there was a combination of erstwhile competitors throughout the gypsum industry; that they did fix prices.

I think for purposes of present argument, although we do not waive the point, that many of the abuses such as the court refers to in this portion of its opinion, such as controlling plaster prices, perhaps controlling manufacturing distributors, fixing the size of truckloads, the amount of dunnage, eliminating jobbers—all of those abuses, if proven to have been done by concerted action would normally constitute a violation of the Sherman Act, can for purposes of this argument be laid to one side, and we can look simply to whether or not the defendants combined under patent licenses, being erstwhile competitors covering an entire industry, and fixed prices.

Judge Garrett: The Supreme Court said that, did it?

Mr. Steffen: That is as I read it, your Honor.

Judge Garrett: In other words, all of these matters of dunnage and freights, and all of that, are not necessary to the broad decision that the court was making. Is that the [fol. 97] way you interpret it?

Mr. Steffen: I would say this: For purposes of a motion for summary judgment and for purposes of the Supreme Court's opinion, it isn't essential to show all of those violations. If you have shown price control alone, you have a case.

Our purpose, therefore, is to clear this as nearly as we can to the essential point in issue—which we think is not in issue, and ask your Honors for summary judgment on that basis.

Then, when it comes to the matter of formulating the decree, if you should give us summary judgment, then many of these matters will come up. I think you will find that most of them will be rather easily handled upon the decree. But for purposes of judgment, either for violation of section 1—that is, if there is a violation of section 1, combination in restraint of trade—we can center this argument on price. They did fix prices. There is no question on the Supreme Court decision that if you did establish price control, that it is per se unlawful. We would like for purposes of this argument to center on that one point.

Secondly, as you have noted in our third point of our brief, if you find an industry under the control of a group who have the power either to exclude competitors or to charge

monopoly prices, you have a monopoly. That would be a violation of section 2. I will take that up when I come to it, [fol. 98] but I want to get clear that we are moving now on both section 1 and section 2. One is a conspiracy or combination in restraint of trade, and the other is a monopoly which is tested by whether they have the power to exclude competitors or to fix monopoly prices.

Now, we have cited here in the footnote on page 24 the colloquy that took place between Mr. Bromley on the one hand and Justice Frankfurter on the other in the Supreme Court argument, which I think is rather illuminating. They got to the question there of whether a plurality of licenses might be a legitimate exercise of the right of a patent holder. If you read the discussion, it comes down to Mr. Justice Frankfurter's statement that:

> "I do not think logic, abstract logic is going to solve this kind of a problem."

In other words, as we read the Supreme Court's holding, which was unanimous, they looked at the substance of the thing. They see here what is admitted in this case without any question, they see here a combination of all of the gypsum manufacturers in the country East of the Rocky Mountains, they see that since November, 1929, they have fixed prices without any question at all, that they have done a number of other things such as I have read from Mr. Justice Reed's opinion: the complete regimentation of the industry, the production of competitive unpatented products [fol. 99] suppressed, a class of distributors squeezed out and numerous other things, and you see, therefore, the fact that what you have here is a group of people in charge of an industry who have for nearly 20 years or at least since November, 1929, had absolute control of an industry.

That is substantial, and what they are looking at is really what the Sherman Act is directed to prevent. They want to get rid of combinations which do control and restrain commerce. So my first point, therefore, is that what we have to show is a combination of erstwhile competitors in charge of an industry who have used the patent license agreement for purposes of fixing prices.

My sub-point is that the General Electric case gives no

support for that form of organization. In other words, we can for purposes of further discussion lay the General Electric case to one side. It has no application to the facts of this case.

Another point which we make—Perhaps I should make that point a little more clear because we have to get rid of that. If you will note on page 26, I refer to what took place in the opinion of the court in the Line Material case.

Chief Justice Stephens: Page 26 of your brief?

Mr. Steffen: Yes, your Honor.

In the Line Material case, they referred to their decision, [fol. 100] and the court there says in effect, (Mr. Justice Reed speaking), that the court is divided on whether the General Electric case should be overruled or not and that it would be unwise for him to state very broadly what it now stands for, but he says that it, at least, continues as a precedent—continues in a precedent—in a situation where a conspiracy to restrain trade or an effort to monopolize is not involved. He goes on to say:

> ". . . . . a patentee may license another to make and vend the patented device with a provision that the licensee's sale price shall be fixed."

In other words, as we read Mr. Justice Reed's language in the Line Material case, he very explicitly says that the G.E. case must be limited to practically the situation between licensor and licensee and that where there is no charge of a combination in restraint of trade or no charge of a monopoly—beyond that, he says it isn't a precedent.

Judge Garrett: Mr. Justice Douglas, I believe it was, put in a pretty strong concurring opinion there.

Mr. Steffen: Yes, your Honor.

Judge Garrett: In which I believe he used the expression "I would have done with the General Electric case".

Mr. Steffen: Yes.

Judge Jackson: That would clear a good deal of the [fol. 101] atmosphere if they had done it, too.

Mr. Steffen: We wouldn't have to argue so much. I think you can treat it as substantially done. As you perceive they haven't overruled it, but what they have said is that it is on a very, very limited footing.

I want to refer, while we have this up, to the Paramount case. In the Paramount case, which was decided after both the Line Material and the Gypsum case, the same thing came up. The charge there in the Paramount case was that there was a combination among the producers of films, and they made the contention that they had a copyright and that, having a copyright, they could therefore fix prices. These would be admission prices to theatres, using the General Electric case as their authority.

Over here on page 39 of our brief, I quote from the Paramount case, and there the court says:

> "We start, of course, from the premise that so far as the Sherman Act is concerned, a price fixing combination is illegal per se. We recently held in United States v. United States Gypsum Company"—referring now to this case—"that even patentees could not regiment an entire industry by licenses containing price-fixing agreements."

That is what the court says in the Paramount case, "that even patentees could not regiment an entire industry by [fol. 102] licenses containing price fixing agreements."

Now, that is pretty explicit language.

To continue:

> "What was said there is adequate to bar defendants, through their horizontal conspiracy, from fixing prices for the exhibition of films in the movie industry. Certainly the rights of the copyright owner are no greater than those of the patentee."

Then, he goes on a little later in the opinion:

> "We stated in United States v. United States Gypsum Company that 'The rewards which flow to the patentee and his licensees from the suppression of competition through the regulation of an industry are not reasonably and normally adapted to secure pecuniary reward for the patentee's monopoly.' "

That is that same sentence, and it says that if you find a situation where they have fixed prices throughout an

industry, and, of course, regimented it in all other respects such as fixing truckloads and delivery areas and all the rest of the things, that the rewards you get are not normally and reasonably adapted.

I might say to your Honors that in our brief before the Supreme Court we listed each of those items and asked the Court to tell us whether this, that, or the other was normally and reasonably adapted. This sentence just says that none of them are, that where you have an entire [fol. 103] industry together, that the awards are not normally and reasonably adapted, without getting down to where this, that, or the other thing might have been reasonable under some circumstances.

Now, the opinion continues:

> "The same is true of the awards of the copyright owners and their licensees in the present case. For here too the licenses are but a part of the general plan to suppress competition."

Note that language.

> "The case where a distributor fixes admission prices to be charged by a single independent exhibitor, no other licensees or exhibitors being in contemplation, seems to be wholly academic. . . ."

Those were the words, by the way, of Judge Hand in the lower court when he was distinguishing the General Electric case. He said the General Electric case applied in his opinion only to the transaction between licensor and licensee and that where you have an industry-wide agreement it does not apply. Here is the Supreme Court saying that that sisuation is wholly academic, and it certainly is on the facts of this case for the reason that we have here admittedly all of the manufacturers of gypsum board in the area East of the Rocky Mountains, so that there is no question that this is much beyond a single licensor or single licensee thing. This is a case where we charged [fol. 104] a combination throughout, and there, as Mr. Justice Reed says, the G.E. case doesn't apply, doesn't

continue as a precedent where you have charged a conspiracy or monopoly throughout an industry.

Well, now, if that will dispose of the General Electric case, we are then thrown back simply to the question of whether these defendants had associated together as a combination, whether they were erstwhile competitors, whether they have fixed prices, and whether that is so clear in the record that there is no genuine issue as to any material fact.

It is my purpose now to look to see whether we have those elements so clearly in the record that there is really no issue as to any material fact.

On page 27 we itemize most of the things that are admitted which are essential. There is no question in the case but what we have all the manufacturers in the area covered. There is no question in the case that they were former competitors. In fact, the record is clear, and I think the defendants offered to prove again, that there was a price war prior to the license agreements in 1929. So that, there was competition; we have all the manufacturers, and they were all the former competitors, and there is no question that they all took out licenses and there is no question whatever but what every license from first to last, as Mr. Bromley told the court, contained a price fixing agreement. Mr. Avery was very insistent upon [fol. 105] that. There is no question, furthermore, but that they did fix prices.

If you will note, Mr. Bromley in his opening statement, as we quote on page 27 here, said:

> "We don't take the position that we didn't fix prices. Of course we did, we fixed prices of our competitors."

That is clear. So what have you got?

You have got a combination of all competitors in an industry covering the whole area, and you have got them fixing prices.

As I say, laying aside for one moment the matter of all the other abuses, price fixing is, after all, the chief vice that the court has been inveighing against for the last several years.

Now, the question next then is to see whether the defendants have acted in concert and the question next beyond that is to determine the point of time at which they acted in concert. We have to show that the defendants, acting in concert, acted to restrain commerce in the area East of the Rocky Mountains.

Now, on page 29 we set out the test, the test of when you have a conspiracy or when there is concerted action. That is probably best shown in the Interstate Circuit case and the Masonite cases. They are referred to consistently by the Supreme Court in all their later opinions, and they [fol. 106] are no way shaken as authorities.

Therefore, I would read you what the court said, reading there in the middle of page 29 of our brief:

> "Acceptance by competitors, without previous agreement, of any invitation to participate in a plan, the necessary consequences of which, if carried out, is restraint of interstate commerce, is sufficient to establish an unlawful conspiracy under the Sherman Act."

Chief Justice Stephens: Let me have that again.

Mr. Steffen: Page, 29, the last part of the middle paragraph.

Chief Justice Stephens: Beginning, "Acceptances by competitors"?

Mr. Steffen: Yes, your Honor.

Judge Jackson: It might be said then that "by their fruits ye shall know them."

Mr. Steffen: Yes, your Honor, decidedly so.

I am getting now, your Honors, to the point we reached in our discussion or hearing on June 8, in which Mr. Bromley said that his position constitutes a very fine line. As I understand his position as then stated, it was that although we could show all of these other things, unless we could show that they not only intended but actually understood and agreed in advance of signing the licenses that they were going to do the various things such as price fixing, eliminating jobbers, and so on, that we couldn't [fol. 107] have made a case. I am reading now from the test as laid down by the Supreme Court as to when you have a conspiracy. I want to make it so very clear that

you don't have to have a preliminary agreement. As Mr. Justice Jackson says, you know them by their fruits, and if you find them in a combination and if you find them actually fixing prices and it covers an entire industry and they were former competitors and even though they have used the patent licenses which would normally be a lawful step, if you find them in a combination, that is unlawful.

The point of time in which the industry must have given its adherence to that way of doing business or that plan, or scheme, or whatever you wish to call it, is not material. In order to violate the Sherman Act, you don't have to sit down first and say, "Now, we are going to take out a license to do this and fix prices." If you do fix prices, then the court is not going to listen when you say, "Ah, but we didn't intend to do that. All we did was murder the man—we didn't intend to do it."

Let's take a look again at that statement:

> "Acceptance by competitors"—these are clearly competitors—"without previous agreement"—that practically answers the question of whether or not we have a previous agreement—"of an invitation to participate in a plan"—and the plan, as we stated [fol. 108] here, is what they did, that they organized and regimented the industry—"the necessary consequences of which, if carried out, is restraint of interstate commerce"—and here they have carried it out and they have fixed prices ("of course we have fixed prices", as Mr. Bromley says)—"is sufficient to establish an unlawful conspiracy under the Sherman Act."

It will be noted that in the Interstate Circuit case the court did not specify that the adherence to the plan must be at any given time. Now, to make this very tight, look at what they did in the Masonite case. In the Masonite case, and I will quote from the excerpt on the lower part of the page, the lower court found expressly that:

> ". . . in negotiating and entering into the first agreements, each appellee, other than Masonite, acted independently of the others,"—

You see, the Masonite case was very similar to this case. In that case, Masonite had a patent, and Masonite entered

into a series of contracts with other manufacturers and these contracts gave those manufacturers del credere agencies to sell the patented article. Each of those contracts was lawful, looked at alone. The question was: Well, when did they first learn that they were in this agreement whereby the whole hardboard industry was stabilized?
[fol. 109] The lower court found that they acted independently, that Masonite licensed one and then they licensed another.

—"negotiated only with Masonite,"—

that is much different from this case, each of the licensees negotiated directly and solely with Masonite, that they

—"desired the agreement regardless of the action that might be taken by any of the others,"—

that is, we have some testimony here that they wanted the U.S.G. patents even though nobody else took out licenses, and the court says that:

—"regardless of the action that might be taken by any of the others,"—

and in this case we have a most favored nation clause in the license agreements where they did require in effect that if you do license anybody else, it must be on the same terms—

—"did not require as a condition of its acceptance that Masonite make such an agreement with any of the others, and had no discussions with any of the others."

[fol. 110] This case is just full of discussions on the part of all licensees at various meetings, and it is in the record admitted that there were meetings all during the summer of 1929, a meeting in May, May 23rd, and many meetings subsequently are admitted, and here the lower court found there were no discussions. Now, look at what the Supreme Court did with that. It says:

"It is not clear at which precise point of time each appellee became aware of the fact that its contract

was not an isolated transaction but part of a larger arrangement. But it is clear that, as the arrangement continued, each became familiar with its purpose and scope. Here, as in Interstate Circuit, . . . 'It was enough that, knowing that concerted action was contemplated and invited, the distributors gave their adherence to the scheme and participated in it.' The circumstances surrounding the making of the 1936 agreements and the joinder in 1937 of the two other companies leave no room for doubt that all had an awareness of the general scope and purpose of the undertaking. As this Court stated in the Interstate Circuit case: 'It is elementary that an unlawful conspiracy may be and often is formed without simultaneous action or agreement on the part of the conspira- [fol. 111] tors . . . Acceptance by competitors, without previous agreement, of an invitation to participate in a plan, the necessary consequence of which, if carried out, is restraint of interstate commerce, is sufficient to establish an unlawful conspiracy under the Sherman Act.' "

Judge Garrett: May I ask you there about your interpretation of that last paragraph beginning with "It is elementary that an unlawful conspiracy may be and often is formed without simultaneous action"? I suppose there must have been conspiracy between at least two individuals.

Mr. Steffen: Yes, your Honor.

Judge Garrett: And then if others entered thereafter under the same terms, it would make them conspirators? How do you understand that language?

Mr. Steffen: I read it in the context of the case, and in the context of the case you have Masonite with a patent, and you have the different manufacturers of cardboard with competitors and Masonite said to Manufacturer A, "We will make you a del credere agency and let you sell."

Then Masonite said to B, we will make you a del credere agent, and then they said to C the same thing, and then they woke up one time with all of them aware, as the court says, of the fact that they were in a plan whereby Masonite was fixing prices throughout the industry.

[fol. 112] The court said it doesn't make any difference whether they have preliminary conversations or whether they acted independently if at some time they all said, "Well, here we are; we are now fixing prices throughout the industry; we are now in a combination or conspiracy."

So the point I make is that it isn't that you have to have a pre-concert or agreement sometime before you enter the agreement, it is what you are going to do if you all get in together and are restraining commerce and trade without any patent protection, as in this case, and thereby having an illegal and unlawful combination and conspiracy.

Judge Garrett: I am thinking particularly of the meaning of the word "conspiracy" as it is used in the Act.

Mr. Steffen: These are the two cases that construe it most authoritatively, I believe, and they say that for purposes of showing conspiracy all you have to show is adherence to a common plan, a common course of dealing or course of action with knowledge that the others are doing the same thing. When you get all the manufacturers together, each of them knowing that the other is guiding his business according to the same plan—or, in other words, in this case they are all fixing prices as U.S.G. lays them down—you have a combination or conspiracy, which this case holds is unlawful.

The point I want to make is it doesn't make any difference when that comes, whether before they took out those [fol. 113] licenses or agreements they intended to do this, or whether they first become aware as the plan progresses, and when they do so become aware, from then on you have concerted action, which is what the Sherman Act is directed against, concerted action on the part of erstwhile competitors according to a common plan or course of dealing, the necessary effect of which is to restrain commerce.

Practically everything in that formula is, I think, in this case clear beyond any doubt. These two decisions state the law of the case, I think, without any doubt at all.

Is that clear, your Honor?

Judge Garrett: Yes, I understand your position.

Mr. Steffen: Well, the point that I should talk to is whether or not these defendants at any time learned that there were other defendants in the industry all guiding themselves by the U.S.G. bulletins.

In other words, when do we find concerted action for the purpose of restraining commerce or fixing prices?

That, I think, is clear without any question at all.

One of the points that we refer your Honors to on page 30 is the policing matter. U.S.G., as you will recall, formed Board Survey to police licensees, and Mr. Bromley, I think, stated in his opening statement that:

> "Of course, it was policing, of course it was trying to keep the licensees in line, but trying to keep them in [fol. 114] line only under the licenses . . ."

We take that as more or less a complete admission that all the licensees were taking part in the policing. They knew that others were associated with them and that the purpose was either to carry out the licenses or really to fix prices and restrain commerce.

Then, we have in this meeting of October 17, 1932, you will recall Mr. Lenci's testimony here in which he quoted Mr. MacLeish that,

> "if the situation did not improve there were only three things to do, either cancel the licenses; or for U.S.G. to institute damage suits against the licensees; or to eliminate the price control feature from the licenses."

Now, at the conclusion of that day's testimony, there was a colloquy between Justice Stephens and Mr. Bromley in which is it pretty clear—this is on page 31 of our brief—in which it is pretty clear that Mr. Bromley agrees that did take place, that all of the licensees with the licensor were present, they went over the matter of whether they were or were not going to have price control, and they decided in effect that they would have price control because price control continued on afterward. There is no question but what it did continue on after.

There we would say if all other evidence failed, there [fol. 115] would be a point of time when the entire industry in the language of the Supreme Court "became familiar with the purpose and scope of the plan." I am reading from the court's opinion in the Masonite case, but it is clear, as the court there said:

"that as the arrangement continued, each became familiar with its purpose and scope."

We have agreed that the purpose and scope was to fix prices throughout the industry and that they had no exemption by virtue of the General Electric case. There you have all the manufacturers of gypsum board in the United States East of the Rocky Mountains familiar with the purpose and scope of the plan to fix prices. In fact, they had an opportunity to get out at that time because U.S.G. said "Go along or we will sue you or cancel the agreement," and they chose to go along.

There you have a clear case of concerted action on the part of all erstwhile competitors to fix prices throughout the industry.

Now, we also have in the meeting of May 23, 1929—that was the Chicago meeting at the Palmer House where Mr. Avery admittedly said to his licensees:

"We have a 'foam' application, and we would like to license you."

He offered at that time to license the industry. There is no question but what that was true. The defendants in their proffer offer to prove it again.

[fol. 116] On page 12 of their proffer, item 31 says:

"On May 23, 1929, U.S.G. disclosed to its licensees the existence of the new 'bubble' invention, which was a method of making a lighter and cheaper gypsum board by introducing soap foam in place of sawdust, for which an application for letters patent had been filed. . . . U.S.G. offered a license under the new 'bubble' invention to any of its licensees who might be interested in taking it."

Over in the Supreme Court, Mr. Justice Black asked Mr. Bromley:

"What happened after the expiration of the patent?"

Mr. Bromley answers:

> "After the expiration of the patent, Mr. Avery called these licensees together and said, 'Now, I have an entirely new development, the Roos foam or bubble board invention. I want you to look at it. I offer it to you. You can have it if you want it.' "

That statement makes it clear, I should hope, beyond any question at all for purposes of this case, that Mr. Avery got all his licensees together and he offered them a license under the "foam" application.

Of course, as you know, those licenses were subsequently signed, in November of 1929, and you know from Mr. [fol. 117] Bromley's admission throughout this case, that those licenses provided for price control because Mr. Avery insisted from first to last that there must be price control.

So, without laboring the argument any further, it would seem that we have a clear-cut case of these defendants going into a plan, these defendants, being erstwhile competitors, going into a plan to license the entire industry to fix prices and each knowing that the others were going into the plan —it is not necessary that there be an agreement to go into the plan. If "A" sees "B" going in, "B" sees "C" going in and "C" sees "D" going in, and they all go in knowing the others are going in, you have a combination or conspiracy. You don't have to say, "Let's sit down and agree that we are going to do what we do." Nor do you have to show intent; you don't have to show that they intended to do what they did.

Judge Jackson: They evidently relied upon the General Electric case when all this was done.

Mr. Steffen: Yes, and that accounts for most of the things they did.

Judge Jackson: That is very obvious, I think.

Mr. Steffen: Let me buttress this argument a little bit better. On page 32 we have a colloquy between Mr. Bromley and Mr. Justice Reed before the Supreme Court, and I read this to mean Mr. Justice Reed was putting his figure on this very question we are talking about here. He wanted

[fol. 118] to know when did these people get together, according to the record. The following colloquy occurred:

"Justice Reed: What I am interested in knowing is whether the licensee, the middle licensee, with Blagden on one side and the last licensee on the other, knew of the other licensees?"

He wanted to find out what did they know.
To continue:

"Mr. Bromley: I think all, of course, as they took licenses, knew of the existing licenses.

"Justice Reed: Was there any provision that this was a standard license, or were there more favorable terms?

"Mr. Bromley: Yes, sir, there was a most favored nation clause.

"Justice Reed: Do you recall what that is or where that is?

"Mr. Bromley: They can find it in a minute . . .

"Justice Reed: Also if there is such favored nation clause, each of them must know that it is participating in the general plan.

"Mr. Bromley: Yes, sir. . . ."

Now, if I stop there, that is the complete admission on the part of Mr. Bromley, as I see it, before the Supreme Court, that they did know that they were participating in a [fol. 119] general plan before they signed the licenses, which established that they probably knew it—they definitely knew it even after they signed the license—but here is a flat admission that they knew it even before they signed the licenses.

[fol. 120] Now, Mr. Bromley's argument carries on:

"but if the end result is legal how can their knowledge render it illegal in the end result; even with a multiplicity of licenses it is legal, and I do not understand that there is anything in Masonite which is contrary because the agreements in Masonite, contrary to the agreements here, were unlawful."

Now, Mr. Bromley is making a legal argument there to the Supreme Court. He admitted the proposition, first,

that they did know that they were going into the licenses. He is now trying to say that although they knew that, that that was perfectly lawful. That was his opinion. The Supreme Court held it was not perfectly lawful and that the General Electric case did not apply.

Therefore, his argument on the law can't stand up in view of the Supreme Court's opinion.

I want to make one more point. He says:

> "As I understand the Masonite agreements were unlawful and that that distinguishes the Masonite situation from this situation."

The Masonite licenses or agreements between Masonite and each of the other manufacturers created a del credere relation between Masonite and the other manufacturers, and the Supreme Court, Mr. Justice Douglas writing that opinion, said:

> "We assume those agreements are lawful."

[fol. 121] In other words, each of the agreements between Masonite and each of the others were lawful agreements, and that the difficulty there, as here, was that the sum total of the thing was unlawful. It was the concerted action using lawful license agreements, in this case, and using lawful del credere agency agreements in that case, to build up a combination or concert which had the effect of restraining trade.

Chief Justice Stephens: This question is perhaps academic now, perhaps it is a mere matter of intellectual curiosity to ask it, although perhaps it might serve to illuminate the question which you commented upon:

I thought in the Masonite case (reading from page 4123 of the transcript of record):

> "The Court, treating the 'agencies' for the purpose of the decision as bona fide del credere agencies, nevertheless held that the form in which the parties chose to cast the transaction was not to govern and that the 'agency' arrangements in reality presented a Bloomer vs. McQuewan, Adams vs. Burke, Hobbie vs. Jennison pattern wherein when a patented product 'passes to the hands of the purchaser, it is no longer within the

limits of the monopoly. It passes outside of it, and it is no longer under the protection of the Act of Congress.' ''

I thought, therefore, that on the whole of the Masonite [fol. 122] case, as we said in our opinion in the topic in which we discussed the authorities, that while it is true Mr. Justice Douglas said he would assume the legality of the del credere arrangement, ultimately on the whole of the opinion he didn't and couldn't have meant that because he said that you had an Adams vs. Burke, Hobbie vs. Jennison, Bloomer vs. McQuewan situation; and that is the situation wherein the title to the patented product having passed to a purchaser rather than an agent, the control over it and over pricing it and over its distribution is lost to the patentee.

It was ultimately held in the Masonite case that you did have a situation where, in respect to each of the assumed del credere agents, there was an actual passing of title to the patented product, so that there really wasn't a del credere agency relationship. There were no agency relationships at all. There was the relation of purchaser and seller.

If that is so, it puzzles me greatly to understand the opinion of the Supreme Court—and perhaps, as I say this is acadamic, but perhaps it might help to eliminate the argument. If that is so, I am still puzzled as to what the Supreme Court means—and we have to try to find out what it means to reach a decision on this motion—if it holds that:

> The General Electric case will permit a single patent license with a price-fixing provision, but no more. Be- [fol. 123] cause a single patent licensing agreement with a price-fixing provision involves all the elements of action in concert which are involved when you have more than one. It involves necessarily a discussion of the terms and an agreement upon the terms and an agreement to fix prices by both the patentee and the licensee.

Aren't you, therefore, really forced into the position that the General Electric case is overruled?

Mr. Steffen: Your Honor, we would be very glad to take that position. I think logically you are right, and I think logically what a supreme court may do some day is to say it is overruled, but right now we are in that intermediate position which isn't entirely logical, as your Honor quite properly pointed out, where it continues as a precedent only in the single licensee-licensor situation.

Where there is a charge of conspiracy and particularly where it gets to the point of an industry-wide license agreement, where the court says flatly that the rewards go beyond anything that the patentee is entitled to normally and reasonably, then the G.E. case doesn't apply; but we would be very glad to take the position that even as between licensor and licensee where there is price control, that it should be deemed to be overruled. But it hasn't been so overruled yet.

Now, I make one other argument.

Chief Justice Stephens: You have quite a little time.

[fol. 124] You started at 10:25, and it is now 11:15. Therefore, you have ten minutes of your first hour, and you are allowed an hour and a half. We will not be too strict in any event. We want to hear you, all parties, fully.

Mr. Steffen: I would like to make the argument now, which is Argument E on page 36.

Chief Justice Stephens: Since I have interrupted you, you might clear up another point in my mind.

What do you mean when you say that if the Court should reach the conclusion which you urge it to reach,—that there was action in concert, admittedly under the pleadings and statements and admissions of counsel, to enter into this group of licenses for the purpose of stabilizing prices—that the other issues in the case (by which I assume you refer to the agreement to fix prices at high and arbitrary levels, the agreement to fix prices on unpatented materials, the agreement to eliminate jobbers, the agreement to eliminate unpatented open-edged board, and the agreement to fix the resale price of manufacturing distributors as charged) can easily be taken care of in a decree?

How can we take care of those issues in a decree unless

we reach also the conclusion—I mean without a hearing on those issues—unless we reach also the conclusion that under the Supreme Court opinion the Supreme Court has said that no evidence will overthrow anything which the [fol. 125] Government has shown with respect to those issues?

Mr. Steffen: My position on that, Your Honor, is that for purposes of this argument the center of the thing is price control. If the Court should give judgment for us in general—that is, judgment under Section 1, based upon a showing without any dispute as to price control—then you come to the matter of a decree and you enter a decree, let us assume, forbidding any price control.

The result of that would be substantially to avoid the jobber situation. We would expect, however, probably also a decree saying that the defendants shall not concertedly refuse to sell to jobbers at any specified price. Now, when we come to that point I don't think Mr. Bromley will raise much of an argument because there isn't any question but what jobbers are out and what we are asking is that they shall refrain from concertedly refusing to sell to jobbers at anything other than the dealer price, leaving it open to any manufacturer to do just as he sees fit.

I should think he would be willing to consent to such a provision in the ultimate decree. Therefore, it isn't essential that we get into a long dispute and a lot of evidence on whether they have or haven't been eliminated. There is enough showing, certainly, that they have been eliminated to justify the Court in enforcing its decree based upon price control along to say, "and, moreover, [fol. 126] you should not gang up against the jobbers"—just to implement the broader decree.

This point "E", Your Honor, if I may refer to that, gives another argument why the Line Material case is not only not an authority against the Gypsum case—in other words, it didn't overrule the Gypsum case—but I think it brings out into the open another set of facts which distinguishes this case from the General Electric case and which would, therefore, again justify the Court, finding all of the other necessary elements, to give judgment for the plaintiff.

I don't know that I need in my time to stress that. It is fairly well developed in the brief.

Chief Justice Stephens: Where does your point "E" start?

Mr. Steffen: It starts on page 36 and continues on for two and a half pages to 38.

Chief Justice Stephens: Oh, yes.

Mr. Steffen: Briefly what the court had in the Line Material case was two patents, a dominant and a subservient patent. There were two manufacturers in the case to start with. The Southern people owned the Lemmon patent, which is the dominant patent on the drop-out fuse, and the Line Material people owned the subservient Schultz patent, which was also on the drop-out fuse. Obviously, neither could sell—of course, the dominant patented article [fol. 127] could be sold, but the subservient patented article couldn't be sold unless they made their peace with the holder of the dominant patent.

In the arrangement the Southern people licensed Line to use the dominant patent, the Lemmon patent, with a cross-license back, and gave Line also the right to license the rest of the industry with price control, and in the outcome you had Line Material, much as Gypsum in this case, licensing the entire industry to make drop-out fuses.

The question then was whether that was a combination in restraint of trade in violation of Section 1. As Mr. Bromley pointed out, we contend that the court could readily have decided that case on substantially the reasoning that they did in this case. There you have a drop-out fuse industry, all of them are in the price-fixing agreement, and the question would be whether or not that would be unlawful. The court held that it was unlawful, but in the course of its opinion, instead of expressing as they did in the Gypsum case the combination of manufacturers to regiment the industry and therefore getting it out of the G.E. case, they stressed the fact that here were two patents, that neither patent holder alone could have licensed and price-fixed his article, that when they put the two patents together and then licensed the industry, that the combination and the price fixing based on a combination went beyond anything that the court had theretofore held.

[fol. 128] The language of the court is fairly clear. On page 37 it says:

> "While the General Electric case holds that a patentee may, under certain conditions, lawfully control the price the licensee of his several patents may charge for the patented device, no case of this court has construed the patent and anti-monopoly statutes to permit separate owners of separate patents by cross-licenses or other arrangements to fix the prices to be charged by them and their licensees for their respective products."

Chief Justice Stephens: You are reading from page 37 of your own brief?

Mr. Steffen: Yes, the top of the page, Mr. Justice Reed's opinion from the Line Material case.

Chief Justice Stephens: I see, thank you.

Mr. Steffen: You see, what he is pointing out there as a further exception to the General Electric case is where you have two patents that are put in the hands of one patent holder and then he licenses the industry. He says no case has gone that far, that the General Electric case doesn't go that far.

Now, in this case here we have in the summer of 1929 admittedly the "starch" patent and the "foam" application, which subsequently became the "Roos Foam" patent. [fol. 129] As you can see by reading the patents in the complaint, they both were patents to make a porous or cellular board. They both were to make a lightweight board.

The "starch" patent has a patentable feature, the fact that it made the paper bond adhere better to the cementitious core and, of course, the "foam" patent had as its patentable feature a multiplicity of cells, making it a porous board.

Now, in the summer of 1929 when they were negotiating the present licenses, they first proceeded under the "foam" applications. Then when Universal said, "We have got a patent covering the use of starch, making a lightweight board", you then see them bringing the two together, in-

stead of Universal licensing U.S.G. to relicense the industry, as they did in Line, Universal sold to U.S.G. It was a different arrangement, reaching the same result.

In other words, let's take the general language of Mr. Justice Reed and I will read now on page 37 from the second quotation:

> "Where two or more patentees with competitive"——

and the "starch" and "foam" patents were certainly competitive——

> "non-infringing patents combine them"——

that was done——

> "and fix prices on all devices produced under any of the patents, competition is impeded to a greater degree than where a single patentee fixes prices for [fol. 130] his licensees."

We have never decided that the G.E. case covers that situation but, of course, the court in the Line Material case had to go on and find that all of the licensees knew each of them was in the agreement and that the purpose was to fix prices, that they did fix prices just as they have here; but the court made a further argument why the General Electric case did not apply.

Now, that brings me to the matter of monopoly. I think our case here on monopoly is even clearer than on conspiracy. In other words, that there is a violation of Section 2 and that there is no genuine issue as to any material fact concerning the existence of a monopoly.

In the first place, of course, you lay aside the General Electric case because they have gone beyond anything that was permitted under the General Electric doctrine. The opinion on page 39, the Paramount opinion. I have read two of those excerpts, and it clearly indicates that the General Electric case on the charge of monopoly—the Paramount case had to do with monopoly as well as Section 1—but on the charge of monopoly that likewise the General Electric case gives no protection in the circumstances of a case of this sort.

Now, the next matter is the matter of purpose. Must it be shown—— This is where the argument came up. Must it be shown that the defendants intended to monopo- [fol. 131] lize or that they had a purpose of monopolizing?

In the very recent case, the Paramount case, the court said—this is in the middle of page 40 of our brief:

> ". . . we pointed out in United States v. Griffith . . . that 'specific intent' is not necessary to establish a 'purpose or intent' to create a monopoly but that the requisite 'purpose or intent' is present if monopoly results as a necessary consequence of what was done."

That, of course, follows the same reasoning as in the intent cases? It is not necessary to show that the parties intended to do what they did. The opinions are full on that score. All that is necessary is to show that they did what they did.

Back on page 34 I can read from the patent case, which is as clear as any. This is at the foot of the page:

> "Bearing in mind that such was the nature, object and scope of the conspiracy, we regard it as altogether plain that by its necessary operation it would directly and materially impede and burden the due course of trade and commerce among the states and therefore inflict upon the public the injuries which the anti-trust act is designed to prevent. . . . And that there is no allegation of a specific intent to restrain such trade or commerce does not make against this conclusion, [fol. 132] for, as is shown by prior decisions of this court, the conspirators must be held to have intended the necessary and direct consequences of their acts and cannot be heard to say the contrary."

We think that language, "cannot be heard to say the contrary", means just what it says, that where you find a group, a combination, in charge of an industry, which meets all the other tests—it is a combination, they are former competitors, it does constitute restraint of trade; whether they intended to or not is immaterial, and they cannot be heard to say that they didn't intend.

That will dispose, may I say, of maybe 10 or 15 of the proffers of proof in this case.

They say: "We didn't intend to eliminate jobbers, we didn't intend to do this, we didn't intend to do that, or at least it hasn't been shown that we didn't intend."

The court has said, without any equivocation at all, that you don't have to show that they had a specific intent. Probably the strongest language is in the Griffith case itself, here on page 35, where they cite Mr. Justice Learned Hand:

> "It is, however, not always necessary to find a specific intent to restrain trade or to build a monopoly in order to find that the anti-trust laws have been violated. It is sufficient that a restraint of trade or monopoly results as the consequence of a defendant's [fol. 133] conduct or business arrangements. . . . To require a greater showing would cripple the Act. As stated in United States v. Aluminum Company of America . . . , 'no monopolist monopolizes unconscious of what he is doing.' Specific intent in the sense in which the common law used the term is necessary only where the acts fall short of the results condemned by the act."

If we couldn't show that they fixed prices or that they did any of these other things, then we might have to show that they intended to do so in order to build a conspiracy, but where they have fixed prices and where they have eliminated competition, then there would be no need of any showing of specific intent.

Chief Justice Stephens: Are you not unavoidably thrown back, even in your monopoly argument, to the difficulty with respect to action in concert? Because if the United States Gypsum Company had licensed only one competitor to manufacture closed-edge board, or after the expiration of the Utzman patent, licensed one to manufacture "bubble" board and "starch" board, then just as in the General Electric case as between Westinghouse and General Electric, there would have been a complete monopoly so far as the manufacture and sale of gypsum board, or tungsten filament in the General Electric case, is concerned.

Yet, the Supreme Court apparently does not condemn [fol. 134] as a monopoly the situation that exists in the General Electric case although 85 percent of the trade was controlled at the outset, and, as I remember the figures, ultimately 97 percent of the filaments made and sold were tungsten. The Supreme Court apparently does not condemn as a monopoly a single patent license to one licensee with price-fixing provisions although that does result in a monopoly, just as truly a monopoly as where you have a dozen licensees, because by definition no one can manufacture and sell the patented board except the patentee and the single licensee.

There is a monopoly, a complete monopoly, in that situation. The Supreme Court holds that monopoly not illegal, just as it held the monopoly in the General Electric case was not illegal. But it apparently holds in this case that, according to your contention, there has prima facie been shown a monopoly.

Doesn't that necessarily follow from the fact that the Supreme Court sees in this case more than one licensee. Therefore, isn't the monopoly argument necessarily tied into the question of action in concert?

Mr. Steffen: I would answer that: It is true that the Supreme Court found that there was a prima facie showing. I am moving the argument on further, as you appreciate, to show that there, moreover, is no genuine issue as to any material fact. I think that on your express ques- [fol. 135] tion that perhaps the court is illogical. I can make the same argument I did before. I don't think this Court can, in the face of these several decisions, however, expand once more or attempt to expand the doctrine of the General Electric case to cover a broad situation of this sort.

The court has been very explicit. It may not be logical, but it has been very explicit.

I would make the argument that we did on the hearing some time ago, that while logically you can say that in the General Electric case there was, while only one, a license which covered perhaps 75 percent of the production, that here we do have a 100 percent; and if you had to make a distinction in terms of percentages, that we have here a

complete monopolization of the entire area East of the Rocky Mountains.

Chief Justice Stephens: I am not suggesting at all, Mr. Steffen, of course, that we should attempt to expand any ruling made by the Supreme Court. If we can find what the Supreme Court ruling means, we are commanded to follow it since we are trial court judges and bound by the Court's decisions.

The point of my question was merely this: I understood you to argue that apart from the question of action in concert and entering into industry wide license agreements, there is a clear case of monopoly established here.

Mr. Steffen: That is right.

Chief Justice Stephens: And I am still puzzled to know [fol. 136] how you can reach that without first meeting the contention, that I suppose the defendants will make, that they still have a right to be heard and to have a day in court on the question whether or not they did act in concert.

Mr. Steffen: On the monopoly charge?

Chief Justice Stephens: In entering into the licenses, more than one license, which resulted in a monopoly.

Mr. Steffen: In my argument I attempt to show that so far as the conspiracy charge is concerned, that the defendants in effect have admitted that they entered these licenses each knowing that the other was going to enter or that the others did enter and that beginning with May, 1929, on straight through we have a fairly clear record that there was adherence to a common plan with knowledge that the others were adhereing to it and carrying it out.

Now, let's look at the monopoly charge. The test of whether you have a monopoly has been pretty clearly stated in the American Tobacco case, as the most recent case. On page 40, we lay it out, the quotation there from Mr. Justice Burton:

> "A combination may be one in restraint of interstate trade or commerce or to monopolize a part of such trade or commerce in violation of the Sherman Act, although such restraint or monopoly may not have been actually attempted to any harmful extent"—

[fol. 137] In other words, he is saying you may have a monopoly even though you didn't carry it out, and then he goes on:

> "The authorities support the view that the material consideration in determining whether a monopoly exists is not that prices are raised"—

For example, to the high and arbitrary levels.

> —"and that competition actually is excluded but that power exists to raise prices or to exclude competition when it is desired to do so."

Now, in the American Tobacco case, it came up on that narrow issue, whether or not there had to be a showing whether they had charged monopoly prices or that they actually had kept other people out of the industry. The court said, to make out a case you just have to show that they had the power, nothing else, to exclude competition or to charge monopoly prices.

Now, in our case we are so limited. We can show they did charge monopoly prices and that they did exclude competition. There is no question in the case at all but what they are all of the manufacturers in the area East of the Rocky Mountains. There is no question in the case at all but what they charged just such prices as they saw fit, not only a monopoly in the sense that a small group might do it but a monopoly in the sense that Mr. Sewell Avery alone could practically dictate what the prices and all the terms and conditions in the industry should be. That is about as supreme a monopolistic power as you can get. Moreover, he [fol. 138]used it.

So that, on the charge of monopoly, as you prove a monopoly, you prove it simply by showing that they are all the manufacturers in the area covering an appreciable amount of commerce and that they not only had the power to charge monopoly prices but that they did charge monopoly prices.

Mr. Bromley says, "Of course, we fixed prices and fixed prices of our competitors." They had a complete monopolization, since November, 1929.

Now, on the matter of excluding competition, we point out on page 41 there that there has been an exclusion in

the sense that Niagara, Universal and Atlantic have been bought up, Oakfield has been bought up, and, while this action has been pending, Texas has been bought, as we understand it, by Celotex, and that, therefore, you have a steady process of concentration in the industry.

But beyond that the matter of jobbers, that is, the distribution part of the business, the matter of excluding jobbers. There is no question in this record at all, and the defendants do not offer to prove by their proffer of proof, that jobbers have not been excluded.

I might say to your Honors that when we were before the Supreme Court, the point that was argued here was made. Mr. Bromley was saying to the court that, "Well, there are jobbers in the industry." The court questioned him as to, "Well, what do you mean?" And he says, "Well, there are [fol. 139] still jobbers in the industry."

And then the Chief Justice leaned over and he said, "Well, what do you mean? They just do business for the love of it?" And everybody in the court room excepting counsel for the defendants laughed.

Jobbers have been eliminated in the industry, and that under the test of the American Tobacco case, if you have a group of people in an industry who have power either to charge monopoly prices or exclude competition (and not only do they have the power but they have done it), you have proof of a conspiracy.

We also took up the matter of Cardiff Gypsum Company. We have quite a lot of material in the record. Defendants do not offer to prove anything to the contrary in their proffer of proof. Cardiff Gypsum Company must be taken to have been eliminated, and that is certainly exclusion of a competitor.

That, I take it, will conclude my formal argument.

My main purpose next, your Honors, is to take up each of the defendants' offers of proof. I think, perhaps, it would be better to hear Mr. Bromley on what he proposes to prove in the light of that, and then I can take up in my remaining time what we think of those various offers of proof.

We put them in three broad categories. There are 29 of them.

Chief Justice Stephens: If you can conveniently do so, [fol. 140] I think it might be better, so as not to be confusing to the Court, to discuss the offers of proof now. If, after Mr. Bromley discusses them, you wish to be heard in reply, we will give you an opportunity.

Mr. Steffen: All right.

Does the Court have before it the defendants' Offer of Proof?

I have three categories. We have one category which includes 29 of the offers in which, as we see it, for purposes of this motion, there is no dispute. In fact, much of the evidence that they offer is already in the record. In fact, I think practically all of this is in the record. That is 29 of the itemized offers.

We have another group of about 11 where their main contention is that they didn't intend to do this or didn't intend to do that; and our position there is that it doesn't make any difference whether they did intend to or not, they did do it; and they don't deny that they did.

Our third category is a group of about 22 proffers which are phrased in terms of "there is no agreement or no understanding (to do what they did)", and I would like to take them up separately. If I may just list the first group—if you want to check these, we say that Offers Nos. 4, 6, 7, 8, 9, 10, 11, 12, 13, 19, 21, 22, 24, 25, 26, 27, 28, 31, 32, 33, 34, 35, 36, 38, 39, 40, 43, 50, 61 and 62——

[fol. 141] Chief Justice Stephens: All those marked with a check mark, you contend are what?

Mr. Steffen: Those are restatements of fact that are already in the record or of things that are not in issue for purposes of this motion.

Chief Justice Stephens: Restatements of fact that are already—what?

Judge Jackson: In the record.

Mr. Steffen: In the record or not in dispute for purposes of this motion.

Chief Justice Stephens: Very well.

Mr. Steffen: I will give you as an obvious example No. 6 on page 2:

"Beginning prior to 1912 and continuing thereafter U.S.G. developed by its own research the new closed-

edge gypsum board and the processes for the manufacture of the same, and obtained," and so on, and so on.

Then, continuing:

—"covering said improved closed-edge board and subsequently other patents covering said improved board and the processes for making the same . . . covering a complete machine and apparatus for making said patented board, which was issued on February 10, 1920. All of these inventions were made by employees [fol. 142] of U.S.G. in the performance by them of research work for which they were employed, and the applications for and letters patent for such inventions were duly assigned to U.S.G. as its own property."

A lot of that is in the record, it is in your Honor's opinion, and it would be a complete waste of your Honors' time to listen to the defendants put all that stuff back in; and even though it were now introduced, it would be immaterial anyway. It doesn't change the determination that your Honors would make; whether it was prior to 1912 that they began their research, and so on, is more or less beside the point.

Now, I think that is true, with some variations, perhaps, but it is true, I think, of all 29 that I have read. This cuts their proffer of proof in two.

I call your attention to 36, for example, over on page 14, which says:

"The licenses, in the form of a single document replacing the prior license of the licensee and including the starch patents and bubble board applications, were subsequently mailed to the licensees. Niagara," and so and so, and then they cite the Government's exhibits.

Well, what in the world—they are exhibits, they are in evidence already. Why bother with any further offer of proof on that score? All of those offers, as we see it, [fol. 143] are already part of the case and there is no issue

on them, and the defendants ought not be permitted to take the Court's time.

Now, the next list. This category is composed of those cases where they are contending that there was no purpose or intent on the part of the defendants to do the things that were subsequently done.

Chief Justice Stephens: No intent or purpose?

Mr. Steffen: No intent or purpose to do what was subsequently done. They are: 5, 46, 47, 48, 49, 51, 52, and 53.

Chief Justice Stephens: Is that all?

Mr. Steffen: 56, 57, and 59. Those are all clearly phrased in terms of purpose or intent, as we read them, and since purpose or intent is immaterial, assuming you are shown a combination, as we think we can, those offers are out of place and would not justify the defendants going forward in their case.

All the remainder, which I do not need to list I take it——

Chief Justice Stephens: It will be convenient for me, if we list them and mark them with the third type of legend. I am marking each one with a different kind of mark.

Mr. Steffen: These are no-agreement cases.

Chief Justice Stephens: That is, 1, 2, 3——

Judge Garrett: We can get these from the official re-
[fol. 144] porter.

Chief Justice Stephens: It helps me to get them down now. 14, 15, 16, 17, 18, 20, 22, 23. What is 22?

Mr. Steffen: 22 I placed in No. 1 category.

Chief Justice Stephens: That is in No. 1 category?

Mr. Steffen: Yes, sir.

Chief Justice Stephens: I am sorry, I didn't understand that. 23, 29, 30, 37, 41, 42, 44, 45, 54, 55, 58 and 60. Now, what category do you put those in?

Mr. Stephen: Those are in the "no-agreement" or "no-understanding" category.

I can illustrate that with 56 and 57, your Honor. It says:

"The license agreements were not executed with any intention to eliminate jobbers. There was no agreement or understanding among the defendants or any of them to eliminate jobbers." No. 57 says:

"The discontinuance of the jobbers' discount provided for in the price bulletins resulted solely from

the exercise by U. S. G. of its right to establish a price for a patented product. U.S.G. did not have any agreement or understanding with the other defendants or any of them that such discount would be discontinued."

[fol. 145] Now, you will notice that 56 and 57 do not offer any new evidence, they do not offer any evidence as to whether jobbers have or haven't been eliminated, and therefore our prima facie case stands, that they have been eliminated.

The Supreme Court held that this was the class of distributors that had been squeezed out.

The whole argument, therefore, turns on whether they intended to eliminate jobbers. I have read you from the patent case and many others that whether they intended to do what they did is beside the point, or that there were no agreement or understanding among the defendants or any of them to eliminate jobbers.

Now, that no-agreement or no-understanding in one aspect is very similar to intent—that they didn't intend to eliminate jobbers, that there was no understanding that they would eliminate jobbers.

In the other aspect it ignores entirely the way you prove a conspiracy case. You don't have to prove a preliminary understanding or agreement. The Interstate Circuit and the Masonite cases—and those cases cite many prior cases, and they say all you have to show that there was at sometime adherence by the defendants to a common plan, whether there was a preliminary agreement or understanding in the record showing that they intended to do or that they had agreements to do it is beside the point. What is [fol. 146] important is to show that at a time they did give their ear to a common plan or course of action which resulted in the restraint of trade. When you look at all of these in that light, all of these, some 22 offerings which are phrased in terms of "We didn't have any understanding or any agreements", you have to push them to one side. They are irrelevant.

What you must show, and what we think we show without any question at all, is that there was adherence at sometime—and we think it was very early—to a common

plan or course of action, the necessary consequence of which was restraint of trade. And in this case, restraint of trade, according to the Supreme Court, did follow, and it had no protection under the General Electric doctrine.

The Masonite case, I think, sustains that position completely, but I think I will defer my further argument until after Mr. Bromley is finished.

Chief Justice Stephens: Will you please recapitulate your last point for me?

Mr. Steffen: The last point, your Honor, is that the defendant's offer or proffer of proof to show that there was no preliminary understanding or no understanding or no agreement among the defendants, (for example, to eliminate jobbers; for example, to have a given price for gypsum board; or, for example, to control distributors; or, for example, to have only a certain amount of dunnage in their [fol. 147] cars, no prior understanding or agreement that they were going to do just that) is substantially asking us to prove that there was a specific intent to do what they did do; and what we have to prove is not this preliminary understanding or agreement but to prove simply that they did restrain trade, that they did, all of them, know that they were doing it, that they acted concertedly, each with the knowledge that the other was doing it, and that the result was, as in this case, the complete regimentation of the industry since 1929. We come at it from the other end and show that we do have a combination astride the gypsum industry, that it has fixed prices throughout, that it has eliminated jobbers—which is admitted—that it has done all of these other things—and the Supreme Court has said that it would cripple the Act.

And they said we could now only get rid of that combination by showing something which is more or less beside the point: that they intended to do that. We don't care about that.

For purposes of proof, after you have a combination in control, as in this case, the court has been very explicit that you do not have to show that they intended, or, as we see it, that there must have been a preliminary understanding or agreement.

Chief Justice Stephens: The Court will be in recess until 2 o'clock.
[fol. 148] Thank you, Mr. Steffen.

(Whereupon, at 11:59 a. m., a recess was taken until 2:00 o'clock p. m., of the same day.)

[fol. 149] *Afternoon Session*

2:00 p. m.

Chief Justice Stephens: Mr. Bromley.

ARGUMENT ON BEHALF OF THE DEFENDANTS

By Mr. Bromley:

Mr. Bromley: May it please your Honors, in order to decide this motion, an answer must be given to the fundamental question. That question may be phrased variously, but in substance, it is this: Is industry-wide licensing with price fixing followed by adherence thereto on the part of the licensees ever in any circumstances lawful?

To put it another way: Is industry-wide licensing with price fixing followed by adherence on the part of licensees to the price provisions illegal per se?

What has the Supreme Court said about that in this decision?

As I listened to Mr. Steffen this morning, it seemed to me that he has ended up, taking everything that he has said and trying to judge its total effect, by the assertion that a mere plurality of licenses with price-fixing provisions, observed and adhered to, is per se unlawful, and, therefore, there is nothing relevant or material which the defendants could possibly offer since it is admitted that licenses were executed, that they did have price fixing provisions, that there came a time when they were industry-wide, and that [fol. 150] the licensor fixed the prices and enforced its rights in that regard as best it could, and the licensees in the main observed the prices. Albeit there is a great deal of evidence that many of them were astute to find ways to avoid their obligations in that regard.

Our position is that the Supreme Court decision did not

by any means enunciate the principle that mere plurality of licenses resulted in per se violation of the Sherman Act.

Judge Jackson: Even though it blankets the whole industry?

Mr. Bromley: Even though it blanketed the entire industry 100 percent, and even though there was strict adherence on the part of everybody to the price-fixing provisions of the license.

That interpretation of the Supreme Court opinion is outlined in our brief and proceeds somewhat in this fashion: The court reversed the order of this Court which dismissed the complaint, concluding that by the record now presented violation of the Sherman Act is clear. That is at pages 401 and 402 of the reported decision.

Chief Justice Stephens: The reported decision of the Supreme Court?

Mr. Bromley: Yes, sir, 333 U. S.

Chief Justice Stephens: You don't have that reference in the slip opinion, do you?

[fol. 151] Mr. Bromley: I can get it, yes, your Honor. It is page 36.

Chief Justice Stephens: What is that statement now, Mr. Bromley? Read it again?

Mr. Bromley: It is from page 36, line 3:

> "By the record now presented, violation of the Sherman Act is clear."

That is in the concluding paragraph of the opinion. But before reaching that conclusion and as essential foundation to that conclusion, the court decided two matters: first, it decided that the declarations and acts of each of the defendants were admissible against all of the defendants as declarations and acts of co-conspirators, and, second, it decided that certain findings of fact made by this Court would bar a reversal of this Court's order of dismissal if the findings of fact were accurate.

It found that the findings of fact referred to were erroneous. So that I say, as foundations to its conclusion that the proof established violation of the Sherman Act, it first had to find that it could consider the declarations as binding upon everybody.

What for? Obviously, to show purpose, pre-arrangement, scheme, plan, conspiracy; and it, secondly, found that it could not reverse the order if the findings of fact were correct.

Well, what is the most important finding of fact made [fol. 152] by this Court in that respect? It is Finding No. 118, that there was no plan to blanket the industry.

In discussing the declarations and holding that they were binding upon everybody, the Court was careful to point out that the license agreements and the price bulletins were sufficient to establish a prima facie case of conspiracy and that the license agreements and the bulletins establishing a prima facie case of conspiracy, the declarations of each were binding upon all.

Now, the findings of this Court which were set aside were not merely Finding No. 118, to which I referred, which was that the defendants did not associate themselves in a plan to blanket the industry under patent licenses and stablilize prices, but they were also findings of fact in great detail to the effect that there was any agreement among the defendants to eliminate the production of open-edge board.

Thirdly, that the license agreements were not executed with an intent to eliminate jobbers, that the discontinuance of the jobber's discount was merely the exercise by the licensor of its right to establish a price for a patented product, and that complaints by licensees that other licensees had sold to jobbers at a discount did not establish concerted action to eliminate either the jobbers or the discount.

Finally, those findings, all of which were reversed, made by this Court, that there was not any understanding that [fol. 153] prices would be raised or fixed upon plaster or upon any unpatented products, and that the bulletin provision prohibiting the reduction of the price of unpatented goods was designed merely to protect the price of the patented products and was not used to stabilize the prices of unpatented materials.

Furthermore, the Supreme Court found it unnecessary to determine whether or not the other findings of this Court were erroneous, but stated that enough had been said by

the Supreme Court as to the findings and the evidence to enable this Court to pass upon the facts as they may come before it on further proceedings in accord with our present ruling.

Now, I say that in view of the Supreme Court's action in setting aside these findings which, after all, went to the heart of the charge of conspiracy, it must be presumed clearly that the Supreme Court regarded the evidence of the Government as establishing prima facie merely that the defendants had associated themselves in a plan to blanket the industry and that there were agreements to eliminate open-edge board, to eliminate jobbers, and to stabilize the price of unpatented products.

The Supreme Court's reasoning, I think, may be analyzed in summary form this way: The license agreements and the bulletins established a prima facie case of conspiracy. This prima facie case having been thus established, the declarations became admissible against all. In view of all the evidence, then—that is, the prima facie combina-
[fol. 154] tion flowing merely from the license agreements and the price bulletins, plus the declarations—in view of all that, the Supreme Court concluded that there was prima facie evidence of a conspiracy and the Supreme Court was careful to put in words just what that conspiracy, which was prima facie established, according to it, was.

The statement of that conspiracy appears at page 34, at the bottom, of the slip opinion in the Gypsum case. The paragraph starts:

> "The General Electric case affords no cloak for the course of conduct revealed in the voluminous record in this case. That case gives no support for a patentee, acting in concert with all members of an industry, to issue substantially identical licenses to all members of the industry under the terms of which the industry is completely regimented, the production of competitive unpatented products suppressed, a class of distributors squeezed out, and prices on unpatented products stabilized."

Now, I conceive that that is the statement of the conspiracy which the Supreme Court has said was prima facie

established, and I say that the opinion then establishes nothing more than this:

At the end of the Government's case, the Government [fol. 155] had met its initial burden of making out a prima facie proof of combination sufficient to withstand our motion for dismissal and that the prima facie conspiracy thus made out was something more than a mere plurality of licenses.

Now, if it weren't, why the necessity for setting aside the findings? If mere plurality of licenses was enough, the Supreme Court would have conceded the accuracy of the finding, perhaps, that there was no plan, but would have said such a finding in these circumstances is without legal probative force because you don't need a plan in order for the Sherman Act to condemn industry-wide licensing.

Isn't it plain that the Supreme Court by that action in reversing these findings and sending the case back has said, "You have got to have something more than industry-wide licensing; you have got to have a plan, not a plan resident in the multiplicity of the documents themselves, but a plan outside of the documents, and understanding among everybody that the documents would be used to accomplish"—what?—To accomplish the description which it states on page 34 is the conspiracy as it judges from the evidence was prima facie established. The prima facie conspiracy which the Supreme Court said was established by the Government at the end of its case involves the four elements which the Government charged in its pleading: a plan to blanket the industry, an agreement to eliminate open-edge board, an agreement to eliminate a class of dis- [fol. 156] tributors—that is, jobbers—and an agreement to stablilize the price of unpatented products.

The Government in its statement of points and authorities filed two weeks ago accepts this same view, it seems to me, of the court's opinion, because in that document, in Points 3 and 4, it says that the proper inference to be drawn from the basic facts is that the defendants associated themselves together in a plan to blanket the industry under licenses and stabilize prices, and then repeats the four elements of the plan as I have read them and as the

Supreme Court described them and listed them on page 34 when it summarized the conspiracy which it said had been established prima facie.

Now, Mr. Steffen, I think, has on the argument abandoned that position and said that the Supreme Court has enunciated the doctrine that mere plurality is enough and there is no defense against that.

Well, the Line Material case, for me, throws a good deal of light upon the soundness of Mr. Steffen's contention. You will recall in that case that the court distinguished the General Electric case on the ground that there was a combination or cross-licensing of two non-infringing patents for the purpose of controlling prices and stabilizing the industry. But it is plain from that opinion that the court placed its stamp of approval upon everything that was done there short of cross-licensing, because in the recita- [fol. 157] tion of facts near the beginning of the opinion under (Roman) I, "The Facts," it adverts to these undisputed elements. On page 9 of the slip opinion in Line Material, down about 10 lines:

"There can be no doubt, however, that each licensee knew of the proposed price provisions in the licenses of other licensees from the circulation of proposed form of license on October 6, 1939, subsequent consultations among the licensees and an escrow agreement, fulfilled July 11, 1940. That agreement was entered into after General Electric took its license and required for fulfillment the acceptance of identical licenses by Matthews, Kearney, and Railway. The licenses that were the subject of the escrow contained the price provisions of General Electric's license. This awareness by each signer of the price provisions in prior contracts is conceded by appellee's brief. A price schedule became effective January 18, 1941. Thereafter, all the appellees tried to maintain prices. Where there was accidental variation, Line wrote the licensee calling attention to the failure.

"The licenses were the result of arm's length bargaining in each instance."—A fact which we are anxious to prove in this case.

"Price limitation was actively opposed in toto or re-

[fol. 158] striction of its scope sought by several of the licensees, including General Electric, the largest producer of the patented appliances. A number tried energetically to find substitutes for the devices. All the licensees, however, were forced to accept the terms or cease manufacture."

Now, isn't it perfectly plain that as far as the Line Material case is concerned, those facts, even more indicative of concert of action than in our case, because of the presence of the escrow arrangement in Line, all of those facts were thought by the Supreme Court not to result in condemnation of the arrangements there found, but that the sole reason for holding that the law had been violated was that a majority of the court thought there was an unlawful arrangement between two patent owners by virtue of the cross-licensing of the Lemmon and Schultz patents even though there was interference between the two patents in the sense that while Lemmon dominated Schultz, Schultz' was an improvement patent and the superior product could not be practiced without the use of both patents. It would not have been necessary to rest the decision upon that ground in view of the Gypsum case if mere plurality of licenses in the mind of the Supreme Court was enough to result in violation of the Sherman Act; nor would it have been necessary in the Gypsum case to do more than say that mere plurality of licenses being established without [fol. 159] dispute, adherence on the part of everybody to the prices fixed and everybody being 100 percent of the industry, is enough in itself to violate the Sherman Act.

I submit, if the Court please, that the Supreme Court has indicated plainly that there is an area of proof which the defendants are entitled to show if they can to rebut the prima facie inference which the Supreme Court drew that there was a conspiracy to accomplish, broadly, regimentation of the industry both in its patented and in its unpatented products, and that there was a conspiracy to regiment the industry by means of an intentional destruction of a class of distributors—to-wit, the jobbers—and an intentional suppression of the manufacture of the so-called unpatented open-edged board.

I detect in Mr. Steffen's argument the constant urge of contending that the General Electric case has been overruled. Certainly, he makes no bones about saying that the General Electric case has been confined to one licensee. Well, that was not the court's position in the Line Material case, because there, admittedly, there were a number of licensees, as many as there were in the Gypsum case, all with identical licenses, all entered into with knowledge, and most, if not all of them, put up on a conditional delivery, the condition of which was that General Electric or somebody else or some certain number should take licenses. That was a device, a common device, to insure [fol. 160] action in concert and to make certain that no one became bound unless all became bound.

In the Gypsum case, all that the Supreme Court has said is that "looking at the declarations we think prima facie the defendants should be called upon to explain and rebut the inference that these licenses were given and taken by reason of a prior understanding that this would be a good way to regiment an industry which prior to taking of the first license had been troubled, if you will, by a price war."

That to me means that we must necessarily have an opportunity to introduce evidence rebutting that inference.

Now, the Government in its points and authorities assert that the basic or subsidiary facts in the instant case are not in dispute. The dispute between the parties is as to the proper inference to be drawn from the basic facts.

Well, I take it that every fact in the case is in dispute except the plurality of licenses containing price-fixing provisions and subsequence adherence to those provisions.

Chief Justice Stephens: It is not in dispute that the licenses were executed, is it?

Mr. Bromley: No, sir. I meant to include that, that the licenses were executed, that they did have price-fixing clauses, and that the price-fixing right was exercised and enforced and that the licensees observed their obligation in the main.

Chief Justice Stephens: I said in the opinion of the [fol. 161] Trial Court, speaking for the Court, something almost to the effect which you said yourself, that there

was no conflict of evidence in the usual sense, that the conflict was one of inferences to be drawn from the evidence. But I had thought, myself, that that kind of conflict, nevertheless, raised issues of fact—where there is a dispute as to the inferences to be drawn from admitted facts, which inferences lead to determination of the ultimate facts in issue in the case—that there was thus an orthodox conflict in the case despite the fact that some basic facts might not be disputed.

Mr. Bromley: Of course, I think that is entirely sound. I don't know what the Government means by the basic facts not being in dispute. I was suggesting merely that they can mean no more than the execution of the licenses. Their contents and their observance are not in dispute.

Certainly, the contention supported by some evidence in the form of a declaration that Mr. Avery was not willing to license anyone unless all took licenses is in dispute, and we want to prove, among other things, from Mr. Avery that it was his position at all times that he was willing to license any or all or any number at any time and cared not a whit what anybody else did.

I was surprised this morning to hear Mr. Steffen, as I understood him, say that Proffer of Proof No. 4 was not [fol. 162] disputed by him or that it was already proved in the record, one or both.

Proffer of Proof No. 4 is a very short one:

> "At all times the licensor was willing to license any one manufacturer without regard to whether or not a license was taken by any other manufacturer or manufacturers."

I am glad to know he doesn't dispute it, if he doesn't, but my problem of proof and the reason I want to prove that from the lips of a witness is that I am aware of the fact that there is in evidence a declaration by somebody which the Supreme Court says is binding on my client, to the effect that Mr. Avery was not willing to license unless all took a license.

Chief Justice Stephens: The point at which I made the remark in question is page 105 of the printed trial court's

opinion, which was made by the defendants. I don't have the reference to it in the Supplement handy. It reads:

> "The evidence offered by the Government in the instant case is mostly circumstantial and the subsidiary facts in the case are largely not in dispute; it is in respect of the meaning of these facts, of the inferences to be drawn from them, that the parties are in contest."

Mr. Bromley: Now, what is it the defendants desire to offer by way of evidence?

[fol. 163] Well, to summarize it, the defendants deny and have always denied that there was any plan among them to blanket the industry with patent licenses and stabilize prices. Accordingly, they have offered to prove in the very first numbered item of their offer of proof that there was not any agreement or understanding between the Gypsum Company and the other defendants or any of them that they would associate themselves in a plan to blanket the industry under licenses and stabilize prices or that they would issue or cause to be issued substantially identical licenses to all the defendants or any of them; and we desire to call the men who were concerned with the negotiation, preparation and execution of the licenses on behalf of the licensor to testify that in offering and issuing the licenses to the other defendants, the licensor acted independently, not by virtue of any plan or understanding with anybody, that it would exercise its right to fix prices, that it would fix prices, that it would or would not put a price-fixing provision in the license, and that we were at all times willing to license anybody who was agreeable to the terms which we laid down in December, 1925, and from which we never varied, from that date down to the present time.

Judge Garrett: Didn't the Supreme Court substantially find that?

Mr. Bromley: It adverted to that fact, that we never deviated from our position, but I think it went on to say [fol. 164] in spite of that and in spite of the fact that the writer of the declaration, who said that Avery was not willing to license one, in spite of the fact that Avery was willing to license one according to the Supreme Court, it

found prima facie from other evidence that there was a plan.

Now, did it mean in saying that there was prima facie evidence of a plan what Mr. Steffen, it seemed to me, finally was driven to contend this morning, that the plan is to be found in the adherence with knowledge through the most favored nation clause, if you please, or otherwise, that others were likewise holders of licenses and adhering?

I thought that I detected finally a contention by Mr. Steffen that that was the plan about which the Supreme Court was talking.

Well, it seems to me absurd to contend that that was the plan about which the Supreme Court was talking when it said that the conspiracy had been prima facie established. What the Supreme Court was talking was something that was arranged ahead of time and not something that sprang into being after the licenses were executed.

He adverted to the fact that in the 1932 meeting when Mr. MacLeish threatened the licensees with legal action or cancellation if they didn't observe the licenses, the licensees could then have withdrawn from the conspiracy, as he put it, but instead of withdrawing they went right ahead and [fol. 165] observed their obligations under the license.

That is not what the Supreme Court decided. It didn't decide that the conspiracy sprang into being after the event and arose and flowed from the observance of the obligations imposed by the contract. What it said was that there was prima facie evidence of a conspiracy to accomplish at least the four objectives listed in its opinion. That must mean that it thought there was evidence of action other than the mere offer of a license and its acceptance and adherence to its provisions. If it didn't mean that, then that would result, it seems to me, in the absurd conclusion that if you could have a situation, as the Presiding Judge indicated in his opinion, where nobody knew what anybody was doing, but over the years it finally came to pass without knowledge on the part of anybody that everybody in the industry was licensed, with price fixing, that that day a conspiracy would have resulted, and I suppose it is possible to conceive of licensor owning a patent and offering a license and having its competitors, seriatim over the years,

each taking a license without knowing whether or not anybody else had one. It is possible to conceive of that happening, and I also suppose Mr. Steffen's contention would be that that was unlawful when all or a substantial number had arrived at the point where they had licenses. I don't think the Supreme Court said that at all. I think it said there must be something other than the mere taking [fol. 166] of the license, there must be a plan to blanket the industry and accomplish results in the minds of everybody beginning at some date and continuing thereafter, a plan to regiment the industry and to control prices, which goes way beyond the legitimate interest of a patent owner in protecting the rights given to him by the patent and enforcing them by the means of licenses.

Now, obviously, there could not have been, I submit, any plan, in the sense in which I use the word, to which the licensor was not a party, and the licensees could have every so many discussions among themselves as to what they should or would or could do, but unless the proof convinces this Court that the licensor was a party to an understanding or plan to do something more than merely offer a license to all comers, it is impossible to conclude that there was a plan or conspiracy which violated the Sherman Act.

That is why I submit that it is vital for the Court to hear the evidence coming from the patent owner, the licensor, the keystone of any conspiracy, if there was one, in order to determine whether the inference, which the Supreme Court has drawn from the declarations, of a scheme to go beyond mere patent licenses is actually the fact.

The defendants deny and have always denied that there was any agreement or understanding among them or any of them to eliminate the production of open-edge board [fol. 167] and they desire to prove and to show that they had no such understanding, that the discontinuance of the production of open-edge board was due solely to economic reasons, that the defendants were at all times free to make it if they wanted to make it, but that there was no demand for it and it disappeared from the market not as the result of a conspiracy.

Judge Garrett: Didn't that run througout the testimony in the case as it was presented here, as you cross-examined? Wasn't that stated by substantially every person who appeared on the stand?

Mr. Bromley: Yes, sir, there was a good deal of evidence that open-edge board was not marketable, was not desired by the trade, and was inferior in quality. That is true.

Judge Garrett. And any additional evidence that might be presented in that regard would be cumulative merely, wouldn't it? What would be the value of additional testimony on that point? I am just asking the question.

Mr. Bromley: Confining my answer to the question precisely, the Supreme Court has said that there was a prima facie case in spite of that evidence, that there was a conspiracy to eliminate the production of open-edge board.

Now, if I were going to confine myself merely to the proof that it was not marketable and not any good and not desired, it might be cumulative, but, after all, I have an inference to overcome, and evidently the Supreme Court thought that evidence to which we have adverted was not [fol. 168] enough to rebut the prima facie inference which it drew from the discontinuance of its manufacture as well as from the royalty provision in the license.

So I submit I am entitled, if my offer of proof were limited to purely cumulative evidence—that I am entitled, indeed, required—to put in more evidence to rebut the inference which the Supreme Court has said is at least prima facie.

But my offer of proof goes, I think, farther than that, although it does include that. I want to show that they were free to make it at all times, and I want to show the problems involved in its manufacture as tied in with the nature of the board-making machine, and to show how utterly absurd it would be for these men licensed under a patented machine which was designed to make closed-edge board, going to the expense of changing the machine from time to time, or making closed-edge board and trimming off the edges so it would become open-edge board, and I want to show all the difficulties involved on the part of a

manufacturer equipped to make the closed-edge product to turn back to make the inferior open-edge product.

Judge Jackson: I thought they were making open-edge board prior to the time of taking the license.

Mr. Bromley: Some of them were.

Judge Jackson: They must have had machinery for doing that.

Mr. Bromley: I don't think they had our patented machinery. If they did, they were infringing.

[fol. 169] Judge Jackson: But they had their own machinery. They would not have had to retool to do it. They already had the machinery to make open-edge board.

Mr. Bromley: In order to make closed-edge board, they would have had to get our patented machine.

Judge Jackson: Surely.

Mr. Bromley: After they took a license and got our expensive patented machine, what I want to prove is that they wouldn't go back and use an old machine or a different process to make open-edge board. I quite agree they could and had been doing it before.

Likewise, we desire to prove that there was no understanding about the elimination of jobbers, that the discontinuance of the discount was due to the fact that the licensor by this time had its own sales organization which gave it sufficient coverage, and it had no use for jobbers and did not desire that its product be manufactured through that channel of distribution and not because it desired to eliminate their competition in order to get them out of the way.

Finally, we have denied and always denied that we ever had any understanding to stabilize or fix the price of plaster or any unpatented products. I want to show what the plaster prices were, to show that on the face of the proof of what they were they bore no relation to board prices whatsoever, that they were not stabilized or fixed, that they followed market trends in the plaster market [fol. 170] just the way the prices of any unpatented goods did, and to establish from that proof of the actual prices themselves that there was no relationship between the prices actually received for the unpatented and the patented products.

So that to sum it up, we desire an opportunity to submit evidence with respect to every finding which the court has set aside as erroneous in order, if we can, to re-establish the accuracy of those findings.

Now, there are a host of other issues. What do we do about the resale prices of manufacturing distributors?

The Supreme Court, it seems to me, leaves that up in the air.

Well, surely we have got to have a determination at some time, either before the case is closed or before a decree is entered, first, whether or not there was any plan to fix manufacturing distributors' prices, and, second, whether they were fixed.

Some evidence was introduced, some letters, a good many letters were introduced, which on their face might justify an inference that the licensor and the licensees were checking up on the prices charged by manufacturing distributors.

We have available as witnesses the three or — men who acted as secretaries of the Board Survey company and who wrote most of the letters in evidence, who can testify as to why they were sent and what was being done in this [fol. 171] regard. When that evidence is received and added to the evidence of the representatives of the manufacturing distributors who were called here and have testified, I think that any inference that any resale prices, so far as manufacturing distributors were concerned, were fixed will completely disappear as it did on the criminal trial.

But I apprehend in the present state of the record that we are entitled to introduce that additional evidence.

I think it is important to us, likewise—and this is another, perhaps, collateral issue, but one that is important to us—to offer proof having to do with the formation, the management, and the operation of this Board Survey company; to show that it was not the result of any plan or conspiracy to regiment the industry, but that its operations were confined in the same sense that the letters written in the Line Material case were confined to the protection of the rights of the patent holder in an effort to secure the faithful observance by the licensees of their obligations to follow our prices.

I think we are entitled to prove and should prove that the principal patents, at least under which the licenses were issued, were basic patents of such scope as to have great commercial value and that it was essential that each manufacturer have the right to use them in order to stay in business in competition with those who did have such rights.

[fol. 172] I think also we are entitled to show that each license taken or issued by U.S.G. was negotiated at arm's length, as the Supreme Court was careful to state was the fact in the Line case, and that none was executed with any purpose or objective not expressly set forth in the license.

I think we are entitled to justify the prices that we fixed under the license agreements to show that they were not arbitrary or unreasonably high in the sense that they bore no relationship to the value of the product.

I certainly think that we are entitled and should show through the evidence of witnesses familiar with them the purpose, meaning, and effect of the various license provisions contained in the license agreements, which the Supreme Court seemed to think were strong in raising an inference that there was a conspiracy and to show that every provision in there had a direct relationship to price and were not put in there to regiment the industry and secure something that a patent owner was not entitled to—that is, the production of standardized goods.

Now, I would like to turn a moment to Mr. Steffen's argument——

Chief Justice Stephens: I would like to hear you on Mr. Steffen's contention concerning monopoly, among other things you may wish to comment on.

Mr. Bromley: Well, I won't read my note in that regard, [fol. 173] which was to the effect that after your statement I thought it unnecessary to make any mention of his argument, but as I understand his argument, what he means by the monopoly contention is merely that there was a plurality of licenses. It is just another way of restating his contention that plurality of licenses is per se unlawful. Now, that, I think, is something of an afterthought, but there surely is no indication in the Supreme Court's opinion, as I read it, that plurality of licenses is per se unlawful because it constitutes a monopoly.

If the Supreme Court had thought that, wouldn't it have overruled the General Electric case?

Because, surely, no one can say there is any difference in the concept of monopoly between the facts of the Gypsum case and the facts of the General Electric case.

Your Honor repeated the percentages, the 85 percent resulting from the mere combination of General Electric and Westinghouse and the 97 percent when judged upon the basis of the character of the products made in the industry.

Now, surely, there can be no difference between 100 percent of gypsum board and 85 percent or 97 percent of tungsten-filament-incandescent lamps.

Judge Jackson: That is what I thought prior to the Supreme Court's decision in this case.

Mr. Bromley: Well—but I still think so. I don't think [fol. 174] there is any indication in the opinion that they intended to make that distinction.

I think, again, it all comes back to the Supreme Court's conception that there was prima facie evidence of a conspiracy here, something outside of mere plurality of licenses.

I think even this monopoly argument to some extent is tied into Mr. Steffen's argument or at least to the Supreme Court's theory that there was action in concert in the sense of an understanding or conspiracy in advance to regiment the industry by means over and above lawful patent licenses, a conspiracy to have unified action to which the licensor was a party, and an understanding that they would bring about industry control by means of these licenses.

Mr. Steffen started off his argument by reading us again from page 35 in the slip opinion in the gypsum case:

> "Even in the absence of these specific abuses in this case, which fall within the traditional prohibitions of the Sherman Act, it would be sufficient to show that the defendants, constituting all former competitors in an entire industry, had acted in concert to restrain commerce in an entire industry under patent licenses in order to organize the industry and stabilize prices."

I think that means it would have been sufficient to make out a prima facie case. Certainly, its connotation to me is [fol. 175] that action in concert is something more than the end result of an entire industry having licensees under a patent.

And so on page 34, the sentence beginning "The General Electric case affords no cloak for the course of conduct revealed in the voluminous record in this case", what they are referring to when they say "course of conduct" is the conspiracy which they describe in the very next sentence beginning "That case gives no support for a patentee, acting in concert with all members of an industry", to issue and regiment and squeeze out and stabilize unpatented products.

Now, Mr. Steffen referred to that part of his brief on page 24 which contains the footnote referring to remarks by Mr. Justice Frankfurter in which he ended up by saying:

> "I do not think logic, abstract logic, is going to solve this kind of a problem."

Chief Justice Stephens: Where is that in Mr. Steffen's memorandum?

Mr. Bromley: It begins at the bottom of page 24. He starts out by saying "That raises the question".

Chief Justice Stephens: I think perhaps that is the most dangerous obstacle you have, Mr. Bromley. The greatest defect I see in your argument so far, is that it seems entirely reasonable.

Mr. Bromley: That is a sin of which I am seldom guilty. That raises the question of whether that which is being [fol. 176] done singly, being lawfully done, may by being done in combination be and creates a different problem. We agree that is the problem.

Then, he says:

> "Well the argument proves too much and doesn't take account of the Carbide case"—referred to here as Carbide—and he says:
>
> "Because he is a license- of a patent, he does not have any freedom to get that patent, and yet it does invalidate a license that says if you take this you must also sell non-patented goods."

I suppose what he had in mind was that logically it is perfectly true—logically—that a patent owner ought to be able to license a man on condition that he use non-patented goods with the machine. All Mr. Justice Frankfurter was saying is he can't do that, although as a matter of abstract logic maybe he ought to be able to do that.

And so he says we cannot apply abstract logic.

But what did he do when he came to the Line Material case? Why, he swallowed the whole line of conduct which I have read: escrow agreement, knowledge on the part of everybody else, discussions, identical licenses, policing, everything else plus cross-licensing. According to his view, the kind of logic which he said should be applied in this class of case, being something other than abstract, jus- [fol. 177] tified even the cross-licensing; as, indeed, I think was the sound view where you had patents of that interfering nature.

So that this colloquy, to me, does not reflect any view that because abstract logic does not solve all problems under the Sherman Act in the patent field, we must say that a mere plurality of licenses is by itself enough to violate the law. Surely he did not subscribe to any such view as that when he joined with the minority in the Line Material decision.

Now, on page 39 of the Government's brief, Mr. Steffen called attention to quotations from the Paramount Picture decision of recent date by the Supreme Court, and to the fact, in the first quotation, that the court started from the premise that a price-fixing combination is illegal per se and the statement that the court recently held in the Gypsum case that even patentees could not regiment an entire industry by licenses containing price-fixing agreements and applies that to the copyright owner situation in the picture business.

Then, at the bottom of the page Mr. Steffen called attention to the quotation in which the Supreme Court said:

> "We stated in United States v. United States Gypsum Company . . . that 'the rewards which flow to the patentee and his licensees from the suppression of competition through the regulation of an industry

> are not reasonably and normally adapted to secure [fol. 178] pecuniary reward for the patentee's monopoly.' The same is true of the rewards of the copyright owners and their licensees in the present case."

Now, the next sentence:

> "For hereto the licenses are but a part of the general plan to suppress competition."

Now, that is what the court found in the Picture case, in this case from which this language is quoted, a "general plan to suppress competition." That is the important sense and one which characterizes every other word said in the quoted parts of the Supreme Court's opinion in that case. There, as here, the Supreme Court was indicating that where there is a general plan to suppress competition, then the fact that a part of it is a license agreement with a lawful price-fixing clause does not have the plan.

Now, I refer again to Mr. Steffen's contention about adherence on the part of the licensees and their knowledge of what was being done after they took the licenses, and I refer to his argument stated at page 31 of his brief, in which he quotes the colloquy between the Presiding Judge and me at the trial. That quotation is preceded by the sentence: "There can be no question"—begining at the third line from the top.

> "There can be no question whatever that from and after this meeting all the licenses were fully advised [fol. 179] of the purpose of the licensing plan to fix prices, and gave their adherence to it. Moreover, it is admitted that what took place at this meeting was true for following this testimony the following colloquy ensued."

After making the quotation which established only that there was a meeting and that Mr. MacLeish told the licensees if they didn't observe their licenses and their obligations, that their licenses would be cancelled, or they would be sued, or the price-control feature would be eliminated from the licenses—that all appears at the bottom of

page 30, as to what Mr. MacLeish said, what the meeting was about, and when it occurred, October 17, 1932, long after the licenses were executed for the most part.

Then, Mr. Steffen, after the colloquy, says:

> "It is submitted that the meeting of October 17, 1932 is sufficient illustration alone to show that the defendants have acted in concert to fix prices and regulate the gypsum industry. Coupled with the other facts above described, it would suffice to make out a case upon which summary judgment could be based."

Well, I take it that that means you never could have industry-wide licensing if the provisions of the licenses were observed, and I am surprised at the assertion in that form, because it seems to me to be a new theory that we have [fol. 180] no defense now because forsooth in 1932 by virtue of a meeting it is clearly established that all the licensees knew that everybody else had a license and was following the prices.

Well, I assume that was known long before this meeting, and, as I said in the Supreme Court, I assume that when each licensee took his license, he knew that somebody else had taken one before him—that is, everyone after the first one—and that, of course, they knew or assumed—and I am not going to attempt to prove that they didn't—that the other fellows were observing the prices which the licenses provided they should have observed.

So that I find it utterly impossible to conceive that the Supreme Court meant to indicate by its opinion that this kind of knowledge after the execution of the licenses, this kind of knowledge that each had the licenses and all were observing, was enough to establish a per se violation of the Sherman Act to which there was no defense. I can't find anything in the opinion to indicate that in the slightest.

Now, over the page. In the colloquy with Mr. Justice Reed in the Supreme Court, Mr. Steffen takes comfort in the fact that Mr. Justice Reed said, near the bottom of the page:

> "Also, if there is such favored nation clause, each of them must know that it is participating in the general plan."

I said, "Yes, sir; but . . ."

[fol. 181] I take it that everybody who had a most favored nation clause—and everybody did have one—assumed and thought he knew that his license was identical to everybody else's. That is what the clause said it would be, that is what he was entitled to have. He was entitled by that provision to have as favorable a license as anybody else had. I am perfectly willing to admit that every licensee was ready, willing, and anxious to take advantage of that opportunity and to make sure that he didn't have any more onerous conditions imposed upon him than anyone else.

I thought the rest of my answer made it clear that I was not conceding that there was any conspiracy in the sense that I thought we were talking about it in the Supreme Court, because I said:

> ". . . but if the end result is legal how can their knowledge render it illegal in the end result; even with a multiplicity of licenses it is legal, and I do not understand that there is anything in Masonite which is contrary . . ."

In talking about elimination of jobbers, Mr. Steffen emphasized, as he did with respect to nearly every aspect of the case, that we cannot dispute that it has been proved that jobbers were eliminated.

Now, it may be that mere proof of the elimination of jobbers establishes a prima facie case from which an in-

[fol. 182] ference is permissible that their disappearance was due to an unlawful conspiracy; but surely we ought to be permitted to prove, if we can, that their disappearance was not the result of any scheme among us to get rid of their competition but was the normal result flowing from the lawful exercise of the right to fix a price by the licensor; and surely evidence from the lips of the men who levelled off the jobber's price as to why they did it and the circumstances in which they did it will, I believe, aid in the ultimate determination of whether or not there was a scheme or plan to get rid of an uncontrolled source of distribution because, of course, we had no right to control jobbers' prices and did not control them.

Judge Garrett: Mr. Bromley, may I interrupt at this

point? On page 16 of this slip copy of the Line Material case—I am sure this has not escaped the attention of anyone—the writer of the opinion, Justice Reed, says:

> "The writer accepts the rule of the General Electric case as interpreted by the third subdivision of this opinion. As a majority of the court does not agree with that position, the case cannot be reaffirmed on that basis. Neither is there a majority to overrule General Electric. In these circumstances, we must proceed to determine the issues on the assumption that General Electric continues as a precedent."

Now, that presents a somewhat unusual situation in the [fol. 183] Supreme Court, doesn't it?

Mr. Bromley: I think it does.

Judge Garrett: No majority either way, and the interpretation that the writer of the opinion accepts is that of the third subdivision of this opinion—he accepts it, but there is not a majority with him on that, and then there is not a majority there for overruling it.

I don't know how much importance that is in this Gypsum case, but they refer us to the Line case, and we have to interpret Gypsum some way in the light of that. I don't know. I mean, interpret the opinion of the court in the Gypsum case and in the light of the opinion in the Line case, but there was no dissent or concurrences in this Gypsum case; it was a unamimous opinion; wasn't it?

Mr. Bromley: Yes, sir.

Cheif Justice Stephens: All that he meant by referring to the third part of his opinion, as I read the Line Material case, was that he thought the Gypsum case did not permit cross-licensing of a dominant and a subservient patent. He couldn't get the other members of the court to agree to that, and there could be no agreement to overruling it; isn't that correct?

Mr. Bromley: You meant the General Electric case?

Chief Justice Stephens: Yes.

Mr. Bromley: Yes, your Honor, I think that is exactly right.

[fol. 184] Chief Justice Stephens: He meant that the General Electric case in his view did not permit cross-li-

censing of the dominant and subservient patent, and he could not get the other members of the court to agree with him on that subject—at least, not a majority. Also, he could not get agreement to overrule the General Electric case.

Mr. Bromley: I think that is all it means. He, therefore, says that the General Electric case continues as a precedent, and he says "We won't answer the various questions asked by the Government as to how it should be applied to the many and various situations which they put up to the court," but he says:

> "On that assumption where a conspiracy to restrain trade or an effort to monopolize is not involved, a patentee may license another to make and vend the patented device . . ."

Judge Jackson: Does that mean as long as no anti-trust proceeding is brought against them, it is all right, but that the minute the anti-trust proceeding is brought against them that General Electric is not a proper citation, not a proper reference?

Mr. Bromley: I don't think it means that.

Judge Jackson: What in the world can it mean?

Mr. Bromley: I think it means that so long as you don't have a conspiracy—what I have been talking about all the [fol. 185] afternoon long—as long as you don't have a combination to accomplish and unlawful result—that is, a conspiracy to regiment the industry in the broad sense described in the Gypsum case—it is still the law that you can have price-fixing in a license.

Now, true, he uses the singular when he says "a patentee may license another." I suppose he uses the singular only because the General Electric case, as a matter of fact, involved only one price-fixing license. It certainly would have been more helpful to everybody if he had said "A patentee may license another or others", which I think he plainly meant, and I refer again to that part of the opinion in which the plural is used, which I pointed out on the last argument.

Certainly, no one can logically justify the distinction between one licensee and two licensees where the amount

of the restraint is the same, as the opinion of this Court has very clearly pointed out.

Chief Justice Stephens: Of course, there was a plurality of licenses in the General Electric case which, except for the patent laws, would have violated the Sherman Act. They weren't all price-fixing licenses. There was one which limited quantity output and one which limited type. But that seems not to have been commented upon anywhere.

Mr. Bromley: No, and it is so strange that it wasn't because the obvious purpose in the General Electric case [fol. 186] of this quantity limitation, as I think was made clear by the record, was to restrain those particular licensees to make sure that they didn't upset the price situation by limiting them very drastically to the number of bulbs they could produce in any year; and there certainly, in that sense, is no distinction in law between a quantity restriction and a price restriction.

On page 37 of his brief there is a curious argument, in which, for the first time I think, the Government attempts to draw an analogy between the cross-licensing in the Line case and the Gypsum case in so far as Gypsum's purchase of the Haggerty "starch" patent is concerned. That is an ingenious attempt, which I hadn't thought of before, but it seems to me that it fails pretty clearly because of the vice in the cross-licensing in the Line case was an agreement between the two where the right of the owner of the Schultz patent to fix prices was ceded by a contract to the owner of the Lemmon patent.

Now, there is no indication that the same result would have followed had the form of the transaction been a purchase. It seems to me you have to take that hurdle before you say that our buying the "starch" patent was bad under the Line case, because it resulted in our being able to fix prices in patent owned by somebody else.

Well, the fact is that there was a transfer of title and [fol. 187] a purchase of the patent. We got it and owned it, and we fixed the price as owner.

Now, conceivably if the evidence—and there is some in the record today—established convincingly that that purchase was made pursuant to this broad general consiracy to continue price fixing indefinitely or beyond the expira-

tion of the Utzman patent, that the purchase would violate the Sherman Act; but one of the things we want to prove—and, again, there is some evidence of this in the record—is the circumstances under which we bought the "starch" patent.

I said the other day that it is inconceivable that the Sherman Act would have been violated if in the Gypsum situation Mr. Haggerty, the inventor, still owning the patent let us assume, had made a will and left it to the Gypsum Company and then died. It is inconceivable that any court would hold that the acquisition in such circumstances of the "starch" patent by us would have violated the Sherman Act. What we want to prove here is, from our side—from the United States Gypsum Company side—the circumstances surrounding our purchase of that patent. Those circumstances have already been partially described by the witness Holland and they are, in brief, that we found ourselves in a most embarrassing position at the time we were offering the "bubble" license and were being accused by Holland of a gross and wilful and wholesale violation of his patent rights at the time we were sternly admonishing [fol. 188] our competitors that they were bad boys because they didn't observe ours; that, due to the fact that the Universal Company was in receivership and needed the money, our prime purpose and our only purpose was to relieve ourselves as cheaply as we could of a claim Universal had against us for infringement of the patent, and we bought the patent for that purpose, and it wasn't until afterwards that we realized we had a product patent under which as owners we could fix prices because of its fundamental nature as a product patent.

I say, again, that even if Mr. Steffen's theory had some merit—which I do not believe—that it merely emphasizes my contention that we should have an opportunity to show the nature of the purchase and the reasons therefor in order to rebut the presumption that it was analogous in purpose and effect to a cross license such as was involved in the Line case.

Now, so far as his comment on our offer of proof is concerned, he seems to reject, as entirely immaterial, intent, purpose and agreement. He says we shouldn't be heard

because under the Supreme Court decision it is utterly immaterial for us to show there was no agreement, there was no intent, and there was no purpose. He classifies into three classes all of our offers.

Now, as to those which he says are already in, the very first one he puts in that class, No. 4, says:

> "At all times the licensor was willing to license [fol. 189] any one manufacturer without regard to whether or not a license was taken by any other manufacturer or manufacturers."

Well, it is in to some extent. If he concedes it, that is another thing, but it is not in with that degree of definiteness, it is not in from any witness representing the licensor or connected with the licensor, and that comment can be made, I think, of every one of the offers that he puts in that class.

It has been necessary in many of these offers for us to repeat, simply for the purpose of making our offers understandable, some such things as that there were licenses and that they were taken on certain dates, but in each instance the offer, when read as a whole, contains some few facts not in the evidence at all or not conclusively and definitely established by the evidence, and we have not intended to repeat anything that is established by the evidence.

So far as the second class is concerned, "of no intent or purpose," the first one that he lists is No. 5, and it seems to me that the soundness of his contention can be tested by that one in which we offer to prove that our sole interest in bringing suits and in settling them and in offering and issuing licenses and enforcing them was to secure the full benefits of our patents and not to enter into a plan such as the Supreme Court has said has been established prima facie against us.

[fol. 190] So that it seems to me in that sense, intent or purpose is material, and I do not at all mean to suggest that unlawful price-fixing is unlawful only if there is an unlawful intent. I don't mean to trespass on that ground. I quite agree that if you fix prices, it doesn't make any difference what your intent is. But if you are charged with entering into a conspiracy, I think it does make a difference

as to what your intent is—certainly, in the sense in which I have been construing conspiracy, as I believe the Supreme Court has defined it in that part of the opinion to which I referred.

Chief Justice Stephens: Didn't the Supreme Court say somewhere in the Gypsum opinion that the motive with which the contracts are entered into is immaterial?

Where was that?

Mr. Bromley: That is on page 27, in the middle of the page, I think, "We conclude"—page 27, a little more than half way up:

> "We conclude that regardless of motive, the Sherman Act bars patent exploitation of the kind that was here attempted."

Chief Justice Stephens: Let me see what context that is in. Do you think, there the Supreme Court is not using the word "motive" in the sense of "intent", in view of the context in which it is being used?

Mr. Bromley: I don't know that I can answer that ques-[fol. 191] tion. My view of that sentence is that where you have a conspiracy as broadly defined—that is, the Supreme Court says:

> ". . . the trial court found that there was no agreement among the defendants"—to do all those things, and that—"The court further held that as to all charges except the last two the defendants would have been acting within the scope of the patent grant even if they had agreed to do the things charged. We conclude that regardless of motive, the Sherman Act bars patent exploitation of the kind that was here attempted."

I think all they mean is that in their view there was a conspiracy and it doesn't make any difference then what the motive for it was.

But I can't be clear about that, because they go on to say:

> "The license agreements and the bulletins establish the conspiracy . . . With the conspiracy thus fully established, the declarations . . . become"—binding.

"We think that all of the declarations and acts . . . are in aid of the ultimate conspiracy."

I think all that means is that assuming you have got a broad conspiracy which is made up of the agreements, the price bulletins, plus the declarations, and if you conclude there was such a conspiracy, then motive with which it was [fol. 192] undertaken is immaterial.

But I still say that in determining whether there was any conspiracy, the intent with which the licenses were issued is material.

Judge Jackson: That intent is a matter of inference, isn't it, rather than any expression, any inference, from facts?

Mr. Bromley: It is a matter of inference, but I think it is susceptible of proof from the licensor. For instance, if he testified that he got a patent and offered it to the world and did nothing else, never conferred with anybody about what he would or would not do, I think that is material evidence to rebut the charge which may flow from the execution of the licenses themselves, that he entered into a conspiracy and violated the Sherman Act. I think he is entitled to explain his conduct and his position as rebutting the charge that he entered into an unlawful arrangement with his competitors which he carried out by means of license agreements.

Chief Justice Stephens: We will take a 15-minute recess.

(Recess 3:30 p. m. to 3:45 p. m.)

Chief Justice Stephens: Have any of the defendants a desire to be heard, other than through Mr. Bromley?

(No response.)

Chief Justice Stephens: If not, we will hear from the Government again.

[fol. 193] Closing Argument on Behalf of the Plaintiff

By Mr. Steffen:

Mr. Steffen: If your Honors please, I don't intend to take very much time.

Chief Justice Stephens: You have 30 minutes left, if you want to use it.

Mr. Steffen: I want to say just one or two things in regard to the proffer. I don't know that we will take an exception, your Honor, but I might point out that there is no affidavit presented and really no issue of fact. I do that for the purpose of getting the matter clear before the Court.

Under Rule 56, if the defendants wish to raise an issue of fact, they must submit an affidavit. The proffer is, of course, informative, but it is not probative proof.

Chief Justice Stephens: Have the courts ruled that they must submit an affidavit?

Mr. Steffen: No.

Chief Justice Stephens: I thought the rule said they may.

Mr. Steffen: They may or may not, but if they don't, in the circumstances of this case, we have a prima facie case and nothing to the contrary. Technically, therefore, we would be entitled to judgment without argument one way or the other.

Then, I want to point out further that both National and [fol. 194] Ebsary, while they have joined in the objection, they haven't put in anything. They don't even join in the proffer of proof—with the result that here we stand with an admitted prima facie case and they say "We object", but they don't put in anything at all upon which your Honors can rule.

Chief Justice Stephens: Is counsel for National here? Who is counsel for National?

Mr. Knuff: Mr. Chase was here this morning.

Chief Justice Stephens: I thought he said National did join in the offer of proof.

Mr. Steffen: He joined in the objection, your Honor, but did not join in the proffer.

Chief Justice Stephens: Did he expressly say he did not join in the proffer?

Mr. Steffen: That is correct. I think that is correct, your Honor.

Mr. Bromley: I thought he said he stood on his answer.

Mr. Steffen: This has been passed upon, I should assume

there is no proof at all. Allegations in an answer are not facts for the purpose of weighing an issue at this time.

Chief Justice Stephens: I am not quite sure of that. I am not sure we can compel the defendants to make a proffer.

Mr. Steffen: No, I think not.

Chief Justice Stephens: We invited them to do so, in order that we might, if possible, clarify the issues in this [fol. 195] case. On a motion for summary judgment, if a defendant can make out that the issues raised by his answer are genuine and material issues, would he not be entitled to a trial even though he doesn't make a formal proffer?

Mr. Steffen: He wouldn't need to make a proffer, your Honor, but he would have to put in an affidavit to support the position he had taken, and the cases, I think, are clear that a mere allegation in an answer, or even mere argument of counsel, is not proof, and you are now weighing the facts.

We have got a prima facie case—the defendants not putting in other facts in provable form by way of affidavit ordinarily.

Chief Justice Stephens: Of course, in Federal practice an opening statement, if sufficiently explicit and detailed, can be treated by the court as an outline of the defendant's case or the plaintiff's case, either one. The court can act. If the court, at the close of the opening statement on the part of plaintiff's counsel, feels that no case has been shown, it can dismiss the case. The same thing with respect to the defendant's opening statement.

Although the power isn't so frequently exercised, I do know of cases in which it has been exercised in the case of defendant's opening statement. I thought what Mr. Bromley was, in effect, making this morning was a kind of opening statement for the defendants. However, go ahead.

Judge Garrett: Let me see if I understand it. You mean [fol. 196] that this proffer of proof should be sworn to?

Mr. Steffen: Substantially that, your Honor; and I am merely raising it——

Judge Garrett: And there should be an affidavit, if given the opportunity, that it would prove so and so.

Mr. Steffen: That is right, and I brought it up simply so the Court would see just the technical position that we are in.

Chief Justice Stephens: Just a minute. Let me send for the Rules of Civil Procedure. Maybe you have them here.

Mr. Knuff: I have them here.

Chief Justice Stephens: I have them in my portfolio in the next room, but maybe you have them more convenient. That is the old rule. "Rule 56:

> "The adverse party, prior to the day of hearing, may serve opposing affidavits, but the judgment sought shall be rendered forthwith, if the pleadings, depositions, and admissions on file, together with the affidavits, if any, show that, except as to the amount of damages, there is no genuine issue as to any material fact, and the moving party is entitled to judgment as a matter of law."

Proceed, Mr. Steffen. We will determine these matters later.

[fol. 197] Mr. Steffen: I want to make just one or two points. I am going to refer to one or two of the proffers for purpose of illustration. I will refer first to item 4. Item 4 reads:

> "At all times the licensor was willing to license any one manufacturer without regard to whether or not a license was taken by any other manufacturer or manufacturers."

We stated that that came in the first category and presented no material issue. In other words, assuming that U.S.G. was willing to license all—in fact, we contend that they would not only license all but did license all of the manufacturers, and, therefore, we do not think that that really is very material, taking it as it is.

Now, the more important point that perhaps I should refer to is the matter of Proffer 1. Proffer 1 says:

> "There was no agreement or understanding between the United States Gypsum Company . . . , patentee, and the other defendants or any of them that they would associate themselves in a plan to blanket the industry under patent licenses and stabilize prices or

issue or cause to be issued substantially identical licenses to all of the defendants or any number of them."

Now, our position is, as we stated, I think, this morning, that what you have to show is brought out in the Masonite [fol. 198] and in the Interstate Circuit case, that the parties have associated themselves, by way of concert of action and being erstwhile competitors and covering the entire industry, in a plan or in a scheme or in a course of action—I said that many times this morning—the natural result of which is to result in restraint of trade.

This morning I clearly said, or tried to say, that for purposes of this action, this motion, we can limit our case to price control. The facts are admitted on that point alone.

The matter of whether or not these defendants did associate themselves in a plan, if you wish, to standardize or to stabilize prices throughout the industry is sufficient to make out a conspiracy in restraint of trade.

Price fixing alone is per se illegal.

The Supreme Court has said that this is not protected under the General Electric case. You have a combination. The plan—Of course, they never sit down and say, "Now, we will do it according to a particular plan." The plan is what you find as the course of action, what they were doing. As Mr. Justice Jackson said, you infer from what they have done, and it gets so loud, the inference, where they have all fixed prices for a period of 19 years or some such matter, that you won't hear them say, "Well, we didn't have any plan to do what we did," or as Mr. Justice Hand said, "Monopolists do not monopolize unconsciously." Those [fol. 199] things, I think, are so clear that no evidence is in point.

Now, take this case. Mr. Bromley would call Mr. Avery. I don't know what he would ask him, but in the case of licensing the whole industry he did fix prices throughout the whole industry. If he were to ask, "Well, did you have any plan to fix prices throughout the industry?", what in the world would that do? Suppose he said, "No", which is the most he could say, what in the world would it prove? They did fix prices throughout the industry, they did li-

cense the entire industry, they did get rid of jobbers—and that is admitted—they did all of the things that are not denied or not brought out in this proffer, such as to have dunnage, to have their various trucking areas, the size of trucks, and everything that has gone on—that is all admitted today. They have not offered in their proffer anything to controvert it.

Now, that is regimentation of an industry. All those admitted facts. Now, what can Mr. Avery say? He can say, "I had no plan." It would be a stupid thing to have to listen to Mr. Avery say he had no plan. What difference would it make whether he had a plan when the whole industry did do it? They all came in, and, moreover, Mr. Bromley admits they all knew they were coming in, in the summer of 1929. They talked over the licenses. At the May meeting they were handed out price control bulletins with all the details. They knew what the price control feature [fol. 200] was, and that same feature came in, in November, the moment they got into the other licenses. They knew the regimenting scheme. They all came in.

I, therefore, say that under their Proffer No. 1 that Mr. Avery might testify that there was no agreement or understanding, is entirely immaterial.

You can say the same thing with his offer in regard to jobbers. He wants to show, he said, that they didn't intend to eliminate jobbers. Well, whether they intended to or not, they did.

He says he would be able to call the U.S.G. officers and have them tell what they intended to do. Well, the fact is they did eliminate jobbers.

He said he would like to ask them if it wasn't their lawful right to fix prices to jobbers the same as to dealers. Now, that raises the question of law: Was it their lawful right to do that in the circumstances of this case? We would say the Supreme Court has said "No", that where you have all associated together, you are all fixing prices to jobbers the same as to dealers with the effect of eliminating jobbers from an industry, that you have, at that point, as soon as you know that everybody is adhering to that same plan or course of action, a conspiracy which results in a restraint of trade, and it is illegal.

Now, — perhaps should say one point with regard to the Line Material argument that we advance. I think that the [fol. 201] argument is very clear.

Mr. Bromley says that it is not unlawful, that the illegality was in the acquisition of the two patents.

He points out: Suppose Haggerty had made a will and given the "starch" patent to U.S.G., would that have constituted an unlawful act?

Well, the vice in the Line Material case—and he read from the opinion—was that the manufacturers all combined under common license agreements to fix prices. The Sherman Act isn't directed and doesn't in terms say it is unlawful to take two patents and combine them. The Sherman Act says that it is unlawful to combine and fix prices, and the whole gist of the Line Material opinion was to say, "And the G.E. case does not protect you where you have combined patents and are fixing prices beyond what they have said in the G.E. case."

[fol. 202] The Line Material case, therefore, is right on all fours with the Gypsum case as respects the combination of manufacturers, their taking out common licenses, their fixing prices, and so on; but the immunity they thought they would get under the G.E. case the court said was gone for the reason that the G.E. case nor no other opinion of the court had gone so far as to say that you could combine those two patents and then fix prices on the combined products.

They could, of course, not have made that point. They could have made the point that just the combination alone, as they said in the G.E. case, where you have regimented an entire industry, that the rewards go beyond anything you are entitled to have by virtue of your patent; but in the Line case, as we point out in our brief, they said the G.E. case is, moreover, also obviated by the fact that you combine competing patents, put them in the hands of one owner, and then fix prices on the basis of that.

There is no immunity by virtue of the G.E. case for that sort of combination. I think our record is pretty clear that the "starch" patent and the "foam" patents are competing. They say so right on their face. It makes a lightweight board. They were put in the hands of one manu-

facturer. The result is that they were fixing prices on the basis of a combination of products.

Now, in other words, what Mr. Justice Reed was doing [fol. 203] and the majority was doing was saying that, "Well, granting that under the G.E. case the licensor may fix prices of his single licensee on a patent, if he has combined and obtained competing patents and then fixes prices on the two of them, that that goes beyond the G.E. case in itself."

The Gypsum case goes beyond the G.E. case if you regiment the whole industry.

The rewards are not normally and reasonably adapted, as the court very specifically says.

So that we feel there isn't really any disputed questions of fact or any genuine issue of a material fact in the case. There is no question at all that the provisions as to intent—you don't have to show, as the court has been saying for 30 or 40 years, that the defendant intended to do what they did. You don't have to show that they had a specific purpose to do what they did.

We say that when you come to show how a conspiracy is proven, you don't have to show that they had any preliminary agreement whereby they did what they did.

Chief Justice Stephens: How can you show a Sherman Act conspiracy without showing intent? You don't have to have overt acts, as I remember it, under the Sherman Act.

Mr. Steffen: No.

Chief Justice Stephens: You have to have intent. Doesn't intent have to exist for conspiracy under the Sherman Act? [fol. 204] Mr. Steffen: No, it is concerted action, and in the patent case, which as I recall was a series of coal contracts—maybe I have the Reading case and patent case mixed—but a series of contracts each of which individually was all right, but where they were combined then you had a monopoly or undue control over an area of the coal industry. The court said, "Well, whether they intended to get undue control over the industry or not is immaterial." They did get it.

As Mr. Justice Douglas in the Paramount case said, "If

you had to go back and prove what after all is a mere matter of form where the real vice is what they did—"

Chief Justice Stephens: Of course, I read with great humility anything from my own opinion at this stage of the proceeding, but I said there among other things—for the convenience of the reporters I am reading from page 106 of the defendant's print of the opinion of the Trial Court in this case, page 451 of the Federal Supplement:

> "Certain other principles relating to proof of such charges as are involved in the instant case should be stated: A conspiracy is a partnership in the accomplishment of an unlawful thing, or of a lawful thing by unlawful means"—citing authorities—"Under the Sherman Act a conspiracy need not involve an overt act, although the commission of such an act or acts may tend to characterize a conspiracy in respect of time and [fol. 205] place. The 'Sherman Act punishes the conspiracies at which it is aimed on the common law footing—that is to say, it does not make the doing of any act other than the act of conspiring a condition of liability.'" Then citations are given. To continue:
>
> "As stated in the latter case 'Conspiracies are seldom capable of proof by direct testimony and may be inferred from the things actually done and from the circumstances.' Evidence as to conspiracy is, of course, to be considered as a whole—not piecemeal."

It is true, of course, that you may not be able to prove intent by direct evidence, but unless you are aiming at proving an effectuated conspiracy to condemn the overt acts which result from it, haven't you got somewhere in the ambit of your proof, either by direct proof or by inferential proof or circumstantial evidence, to show that there was an intent either to do a lawful thing by illegal means, or to do an unlawful thing?

Mr. Steffen: I don't want to be understood to say——

Judge Jackson: Isn't it a kind of aphorism that everybody is presumed to intend the result of his own act?

Mr. Steffen: That is right, and will not be heard to say the contrary is what the court said.

Chief Justice Stephens: That is true, but still that doesn't

eliminate the fact that you ultimately have to find intent, [fol. 206] so that intent is still an issue in the case, isn't it? That goes to the method of proving intent.

Mr. Steffen: Well, Your Honor, if they won't hear you say the contrary, then it is scarcely an issue in the case. I would cite you again in our brief the language of the court in the Griffith case, which I think is very clear:

> "It is, however, not always necessary to find a specific intent to restrain trade or to build a monopoly in order to find that the anti-trust laws have been violated. It is sufficient that a restraint of trade or monopoly results as the consequence of a defendant's conduct or business arrangements . . . To require a greater showing would cripple the Act. As stated in United States vs. Aluminum Company of America . . . 'no monopolist monopolizes unconscious of what he is doing.' Specific intent in the sense in which the common law used the term is necessary only where the acts fall short of the results condemned by the Act."

I have no further argument, Your Honor.

Chief Justice Stephens: Mr. Bromley, I would like to hear you on this point that you are required in order to make a binding proffer to file an affidavit. What do you say about that?

Mr. Bromley: In the first place, the plaintiff's motion for summary judgment is made upon the pleadings and the [fol. 207] proceedings, including the testimony and the exhibits of the admissions by counsel.

Now, my position was that since the Government has moved upon the testimony and the exhibits, that I wouldn't even have to make an offer of proof.

Chief Justice Stephens: Does it also move upon the pleadings, did I hear you say?

Mr. Bromley: Yes, sir.

Chief Justice Stephens: Very well.

Mr. Bromley: And that since they proffered to the Court both sides of the question, not only the complaints but the answers, not only the direct examination but the cross-examination, not only the testimony but the exhibits, and

have proffered to the Court the whole thing, there was nothing for me to do except adopt the basis presented and say on the facts that they present thus as a matter of law the motion cannot be granted.

I didn't feel that I had to come in here and make an offer of proof supported by affidavit or make any showing by affidavit. I was willing to accede to the request that I do so in order to assist the Court in indicating what it was that I had in mind, but I felt I could have just as well indicated that on the argument without any offer of proof, that it was apparent from the nature of what the Government proffered here—that is, the testimony and the exhibits.

[fol. 208] Chief Justice Stephens: I want to ask you one other question, Mr. Bromley.

Turning to the Supreme Court opinion in the Gypsum case, at page 24 in the second paragraph the Court said:

> "If the District Court had thought that a plan such as is evidenced by the license agreements and the bulletins was illegal under the Sherman Act, it might have had a different conclusion on the question of the admissibility of the declarations of some appellees against all. Its position stemmed logically from its understanding of United States vs. General Electric Company"—giving the citation.

Then it puts in a footnote, which is a quotation from my opinion for the Trial Court in the Gypsum case, which says:

> "To the District Court the General Electric case establishes 'that a patent license agreement granting the right to make, use and vend a patented product, under terms and conditions, including prices, fixed by the licensor, is lawful. Such a license agreement ordinarily, and, when the prices are (as in the General Electric case) a part of the license contract, necessarily, involves negotiation and discussion between the licensor and the licensee and agreement upon the terms and conditions, a purpose to execute and carry out the agreement, combined action in signing the agreement [fol. 209] and in performing the obligations thereof,

with knowledge that it will result in a stabilized and presumably profitable price for the patented product as between the parties and in the industry (since the parties are, by virtue of the patent, the only ones having a right to make, use and sell the superior patented product) and with knowledge that it will result in a monopoly (i.e., a divided patent monopoly), in probable discontinuance of manufacture and sale by the licensee of inferior materials (the licensee's incentive to take a license is the right to make the superior product), and in control of distribution. What a lawful patent license agreement normally involves cannot be unlawful. Additionally, since a patent owner may lawfully divide his patent monopoly with a plurality of licensees, there will in the usual course be with each of such licensees the same negotiation and discussion, agreement upon terms, purpose to execute and carry out a license contract and to accomplish its normal results, and combined action in so doing, as in the case of a single licensee. And each licensee will be informed of and discuss with the licensor the terms and conditions of the proposed licenses; otherwise no more than a single license could be executed. A patent owner would not be able to license competing manufacturers upon different price terms; no one such would be will-[fol. 210] ing to suffer competitive disadvantage; no one such would be willing to sign in the dark as to the terms to be extended to the others; ordinarily, moreover, there will be discussion at large, i.e., within the trade, of the advantages and disadvantages of the licenses proposed by the patent owner. Each of a plurality of licensees will, moreover, have the same purpose to take a license and to secure its resulting advantages. The licensor and each licensee of such a plurality constitute "combination" to effectuate the purposes of their license. Since a plurality of licenses is lawful, all of this must be lawful. Further, if in practical effect the licensor and the plurality of licensees are a "combination" to the same end, such a "combination" is not stigmatized by the law—provided in purpose and effect it does not secure to the patent

owner more than the normal reward of a patent monopoly, nor to any of the licensees with whom the monopoly is divided more than the advantanges which naturally result to a licensee, as well as to a licensor, from patent licensing. All of this necessarily follows from the General Electric case.' "

Now, after having quoted that in its opinion, the Supreme Court goes on at the top of page 25 and says:

[fol. 211] "The opinions in No. 8, United States vs. Line Material Company, decided today, whatever may be the different views expressed, make clear that the District Court's interpretation of General Electric differs from that of this Court. With its interpretation of the rule of General Electric, the District Court was not required to balance the privileges of United States Gypsum and its licensees under the patent grants with the prohibitions of the Sherman Act against combinations and attempts to monopolize. Conspiracies to control prices and distribution, such as we have here, we believe to be beyond any patent privilege."

Now, why is not that an express holding by the Supreme Court that a plurality of licenses, a mere plurality of licenses, is illegal, with price-fixing provisions? That has puzzled me in reading this opinion, especially when I contrasted it with what you yourself have emphasized. The Supreme Court said in a later part of the opinion at page 27:

"The Trial Court made findings of fact which if accurate would bar a reversal of its order. In Finding 118 the Trial Court found that the evidence 'fails to establish that the defendants associated themselves in a plan to blanket the industry under patent licenses and stabilize prices.' "

Those two parts of the opinion seem to be inconsistent [fol. 212] with each other. In the one which I first read, it seems arguable that the Supreme Court was holding that a plurality of licenses is illegal, but here the Supreme Court says that if our findings were accurate—and it mentioned particularly Finding 118—the reversal of its order would

be barred, which would seem to indicate that a plurality of licenses is not illegal.

What do you make of that? Can you help us, either of you?

Mr. Bromley: I had always interpreted the statement on page 24 as merely the enunciation of the doctrine that the license agreements and the bulletins were sufficient prima facie proof to justify the reception of the admissions against everybody.

I have also thought that the sentence on page 25 misinterpreted what was stated in this Court's opinion completely because I saw no evidence of any failure to appreciate that the privileges must be balanced with a proper regard for the Sherman Act and the patent law.

Chief Justice Stephens: Well, that is certainly true because we carefully pointed out that the operations under the agreement must not go beyond the proper limits of the patent monopoly and into the field covered by the Sherman Act, and we thought that they had not.

Mr. Bromley: Furthermore, I think you expressly refer to the fact that you had a conflict and had to balance what [fol. 213] could be done under the one and what was prohibited under the other.

Chief Justice Stephens: Do you agree with me that those two parts of the opinion that I have referred you to are apparently inconsistent, when it says, "In Finding 118 the Trial Court found that the evidence 'fails to establish that the defendants associated themselves in a plan to blanket the industry under patent licenses and stabilize prices' "?

When the Supreme Court says that and says that if we could make a different finding on that subject accurately, it would bar reversal, it means to hold that a mere plurality of licenses is not necessarily illegal?

Mr. Bromley: Yes, sir, and I think also you cannot disregard what is said on page 34 and page 35, at the bottom of 34, where I said before and say again that I think they there state what they think the conspiracy was that was established prima facie.

May it please the Court, going back to page 24, that sentence, "If the District Court had thought that a plan such as is evidenced by the license agreements and the

bulletins was illegal under the Sherman Act, it might have had a different conclusion on the question of the admissibility of the declarations . . .", that is what they are talking about—admissibility of declarations.

Now, I confess that I have always thought that it was [fol. 214] clear law that in order to make declarations admissible, you didn't have to prove an unlawful conspiracy by evidence aliunde, and I say that because as I understand the Hitchman case—and I can't remember now whether Your Honor accepted this in the opinion or not—as I understand the Hitchman case, it was sufficient to prove that there was a combination, that is, to organize the mines.

Chief Justice Stephens: We did hold in addition to that that you couldn't prove one combination and then, resting upon that, prove something different by way of the full conspiracy.

Mr. Bromley: By means of the declarations.

Chief Justice Stephens: By means of the declarations.

Mr. Bromley: I think that is right.

Chief Justice Stephens: I do think it is to be noted, gentlemen, that in this part of the opinion on page 24 the Supreme Court was talking in terms of whether or not there had been established sufficient evidence of a conspiracy independently of the declarations to warrant considering the declarations binding upon all. Perhaps, therefore, the Supreme Court was not intending there to rule definitively upon a question of the legality of plurality of licenses.

Mr. Bromley: I think that must be the explanation.

Chief Justice Stephens: Mr. Steffen, do you have anything that will help?

Mr. Steffen: I would like to say just a word. I think [fol. 215] there is no necessary inconsistency at all in the two provisions and with the greatest respect I say that I think the Supreme Court when it set out very carefully the theory upon which this Court construed the General Electric case and said that it disagreed with it, that it was passing then definitely upon the law of the case. Of course, it would have to do that for purposes of determining the effect of the declarations.

But what they were saying was that even though all of the matters that were listed in this footnote were found,

still that that doesn't reach the position of this Court and that this Court says that the conspiracies to control prices and distribution such as we have here—or, in other words, such as Your Honor had listed—we believe to be beyond any patent privilege.

Now, when you come to four over on page 27, the Trial Court made findings of fact which, if accurate, would bar a reversal of its order, and referring to Finding 118, I don't see any inconsistency. If you read Finding 118, it is as broad as all outdoors, and if that finding were to remain—that is, that there was no combination among erstwhile competitors—let me read it:

> ". . . the evidence 'fails to establish that the defendants associated themselves in a plan to blanket the industry under patent licenses and stabilize [fol. 216] prices' ", as charged by the Government.

You see, that is extremely broad. It had to be upset. That is, if the Court was to do anything at all. The Court in this part of the opinion is merely explaining how Your Honors reached the position that you did and saying they disagreed with the basis on which you reached it and then saying that as they looked at the evidence that 118 can't be sustained.

That cleared the path then for them to say in the fifth part of their opinion over on page 33 what they thought the law was, and then they rather explicitly say there that it will be sufficient to show that defendants, and so on, as I see it.

Chief Justice Stephens: We will take a recess for ten minutes, gentlemen, and reconvene and, if possible, make some announcement as to when we can reach a conclusion upon this motion for summary judgment.

(Recess: 4:27 p.m. to 4:47 p.m.)

Oral Ruling on Motion for Summary Judgment

Chief Justice Stephens: The Court thinks it need give no further consideration to the motion for summary judgment than it has thus far given. It has heard the arguments and considered them carefully and has read the prof-

fers and various other papers presented and is ready now to reach a decision.

The Court is in division on the motion for summary [fol. 217] judgment. Judge Garrett and Judge Jackson have different views from those of myself, and I will ask them each to state briefly their views, and then I will state mine.

Judge Garrett.

Judge Garrett: I have studied the proffers of proof very carefully in the light of the motion for summary judgment and in the light of the argument made in the briefs.

It is my opinion that if everything should be testified to, which is in the proffers of proof, it would not bring any change in the decision of the Supreme Court on the fundamental question involved.

I do not care to go into any detail about the matter. Of course it is very well known my judgment was different originally, but the Supreme Court has spoken, and I am unable to see wherein there is any loophole through which there may be a conclusion different from that reached by the Supreme Court upon the fundamental questions.

Hence, I think the summary judgment should be granted, but I take the precaution to say that the decree following the summary judgment, if it comes or when it does come, must be examined with great care because it should not include matters which were not in issue before the Supreme Court.

That, I think, is all that I have to say.

Chief Justice Stephens: Judge Jackson.

Judge Jackson: Judge Garrett's reasoning parallels mine. [fol. 218] I, too, feel that if everything were proved by witnesses on the stand that is stated would be attempted to be proved in the proffer of proof, that still there would be no genuine issue of a material fact. There is no sense in going to great length to explain my view. I agree with Judge Garrett. I have read very carefully the briefs, listened with attention and an open mind to the arguments, but I just can't understand how I could come to any other conclusion in view of the decision of the Supreme Court.

Chief Justice Stephens: I have a different view from my colleagues. I think the same issues—geninue issues of

fact—which were in the case at the outset are still in the case—the issues which arise from paragraphs 44, 45 and 46 of the plaintiff's complaint and from the defendant's answers denying the allegations therein.

I think the opinion of the Supreme Court clearly contemplates further proceedings in this case. It says on page 33 of the slip opinion just above Topic V:

> "It may be that in the light of this opinion the District Court will conclude that many such findings are no longer significant in reaching its decision. As to others a different result will be required. Enough has been said as to the findings and the evidence, we think, to enable the District Court to pass upon the facts that may come before it on further proceedings [fol. 219] in accord with our present ruling."

That, I think, is a clear indication by the Supreme Court that further proceedings were contemplated by it to be held by the Trial Court.

As to the balance of the opinion of the Supreme Court, while it is difficult to be clear as to just what it means on the topic of legality or illegality of a plurality of licenses, I cannot bring myself to believe in reading the opinion several times carefully that the Supreme Court has intended to rule that a mere plurality of licenses with price-fixing provisions is illegal.

I think, therefore, that the Supreme Court would not warrant our denying the defendants a right to try to prove that that was all there was in the instant case.

I do not see how we can assume to say that the defendants will not be able to prove to the satisfaction of this court the correctness of the findings of fact which it has already made. Putting this otherwise, I think the whole of the opinion in the Supreme Court must be read in the light of the proposition that the Supreme Court was passing only upon the question whether or not a prima facie case had been made.

I do not think it intended to rule that a complete case had been made. If so, it would itself have ordered a decree. I think the defendants are entitled to try by introducing evidence to convince the triers of fact that the allegations

[fol. 220] in paragraphs 44, 45 and 46 of the complaint are not true.

I think that to grant summary judgment at the present stage of the case is to deny to the defendants the guarantee of the due process clause of the Constitution of their day in court on the issues raised by their answers.

I do not think the Supreme Court contemplates any such denial.

That states my views briefly.

With respect to a decree, since I am now in the minority, I shall have to defer to the views of my fellows as to this suggestion.

It occurs to me, Mr. Steffen, in view of the victory you have now so fully won, that you might be able to content yourself with a decree which reflects the views of my colleagues on the subject of conspiracy to execute and take patent licenses for the purpose of organizing the industry and stabilizing prices, and on the subject of monopoly, and that you might not need to trouble yourselves or this court with the difficulties about jobbers and high prices and arbitrary prices of the patented board or with respect to unpatented materials or with respect to standardization or with respect to manufacturing distributors.

I should think you might be able to waive those points, if you get a decree, which you will now get, holding the entire licensing system illegal.

[fol. 221] Now, of course, we can't compel you to do that, but I suggest that as a matter for your consideration; and if you come to a different conclusion, then I think my colleagues will have to meet the issue of how they are going to draw a decree on those five topics which are the subject of paragraph 45 of the complaint without a hearing granted to the defendants on their denials of the charges on those subjects.

Mr. Steffen: If Your Honors please, we will be glad to have possibly 90 days in which to study over the matter of the findings and also to take up in some measure the nature of the proposed decree. We do not want to hurry in this, and we would not like to be pressed to agree now to any particular findings, but after studying it thoroughly, we will then, as in the last case, submit——

Chief Justice Stephens: I wouldn't suggest a present

commitment, of course. I do have this to suggest: while I disagree with my colleagues in their views, I think one of the practical results of their views, which may be desirable, is that if the defendants see fit, as I assume they will, to appeal from this ruling, we then may get a speedy determination by the Supreme Court as to what this opinion means on the subject of plurality of licenses and the legality thereof.

It would seem to me that it would be to the interest of the Government, which wants to stop what it claims to be [fol. 222] an illegal combination, to get its decree in here as soon as possible so that the defendants can proceed to appeal as soon as possible.

So I would suggest that you take as little time as is reasonably necessary for preparing a proposed decree.

Judge Jackson: Be sure that time is sufficiently long, though, so that some of us Judges can get out of this climate. I am not going to work this summer if I can help it. I am sick of it.

Mr. Steffen: We want at least 90 days.

Chief Justice Stephens: Is there any objection to 90 days for the preparation of the proposed decree, any objection by the defendants?

Mr. Steffen: Mr. Knuff says he would prefer 120 days. I might say this: that I am in charge of a case in New York against the Investment Bankers. I come here occasionally, and Mr. Knuff has been carrying the load and it will be largely his load over the summer.

Judge Jackson: Let us not fix a definite date, then, but get it out as conveniently as you can without killing yourselves, but have it accurate.

Mr. Steffen: That is right.

Chief Justice Stephens: It seems to me it would be better to set some time limit. If the defendants do not object, let's make it 120 days. Any objection by the de- [fol. 223] fendants to 120 days?

Mr. Bromley: No, Your Honor.

Chief Justice Stephens: Make it 120 days from today to present the proposed decree to the court and to adverse counsel.

Mr. Steffen: That is proposed findings of fact.

Chief Justice Stephens: Proposed findings of fact, de-

cree, or any other papers you feel you are obliged to have signed by the majority of the court under this motion for summary judgment and the granting thereof.

Does anyone think of anything else that ought to be disposed of at this time?

Mr. Bromley: May I have the last thing read that you said, Judge? I wasn't listening, I am sorry.

Chief Justice Stephens: I said that the defendants not objecting, the Government will be allowed 120 days from today within which to file with the Court and serve upon the defendants and their counsel its proposed decree, findings of fact, and/or other papers which it may feel itself under the legal duty of presenting in order to effectuate the ruling of the Court on the motion for summary judgment.

Mr. Bromley: I should like the record to show that I except to the ruling of the Court made this day.

Chief Justice Stephens: May it so show.

The court will be in recess until 120 days.

[fol. 224] (Whereupon, at 5:00 o'clock p. m. an adjournment was taken sine die.)

[fol. 225] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

Holding a Three Judge Court

Civil Action No. 8017

UNITED STATES OF AMERICA, Plaintiff,

v.

UNITED STATES GYPSUM COMPANY; NATIONAL GYPSUM COMPANY; Certain-teed Products Corporation; The Celotex Corporation; Ebsary Gypsum Company, Inc.; Newark Plaster Company; Samuel M. Gloyd, Doing Business Under the Name of Texas Cement Plaster Company; Sewell L. Avery; Oliver M. Knode; Melvin H. Baker; Henry J. Hartley, Frederick G. Ebsary; and Frederick Tomkins, Defendants

Reporter's Transcript of Conference of July 30, 1948

Conference Room, Court of Customs and Patent Appeals,

Washington, D. C.

Friday, July 30, 1948.

The above-entitled cause came on for the hearing of counsel and the announcement of the court's decision with reference to the proposed interlocutory order submitted by the plaintiff at 10:00 o'clock a. m., pursuant to notice, before Honorable Harold M. Stephens, Honorable Finis J. Garrett, and Honorable Joseph R. Jackson, sitting as the District Court of the United States for the District of Columbia.

[fol. 226] APPEARANCES:

On behalf of the plaintiff:

Edward Knuff, Esq., Special Assistant to the Attorney General.

On behalf of the defendants:

Hugh Lynch, Jr., Esq., for the defendants United States Gypsum Company, Sewell L. Avery and Oliver M. Knode.

Ralph P. Wanlass, Esq., for the defendant The Celotex Corporation.

James O'Donnell, Jr., Esq., for the defendants Newark Plaster Company and Frederick Tomkins.

George E. H. Goodner, Esq., for the defendant Samuel M. Gloyd, doing business under the trade name of Texas Cement Plaster Company.

John J. Courtney, Esq., for the defendant Certain-teed Products Corporation.

[fol. 227] PROCEEDINGS ON PROPOSED INTERLOCUTORY ORDER

Chief Justice Stephens: The record will show that the court is in session informally in the Conference Room of the Court of Customs and Patent Appeals for the purpose of hearing counsel with reference to the proposed interlocutory order and announcing the decision of the court as to whether or not to sign it.

Will the judges who are in the majority with reference to the motion for summary judgment please make such statement as you wish to make.

Judge Garrett: This motion for an interlocutory order took me somewhat by surprise because the court had adjourned on June 29 for 120 days at the request of counsel for the Government, agreed to by counsel for the defense, in order that a decree conforming to the decision of the Supreme Court might be prepared and presented. The court adjourned sine die that day.

So this motion for an interlocutory order came somewhat as a surprise. I don't know why it was presented, and before proceeding about this—we are proceeding quite informally, Mr. Knuff—I wonder why it was presented.

Mr. Knuff: I will be very glad to give you our thoughts on the matter, Judge Garrett.

The order was presented to formalize what the court informally said on June 29.

[fol. 228] Within the last year the Department has had the unfortunate experience of participating in at least two cases in which members of the court have unfortunately died before the entry of any formal order. I am referring particularly to Judge Bright's untimely death in New York in the Alkali case in which he was the sole judge, and he was

also a member of the statutory three judge court having hearings in the Paramount case.

None of us, of course, have any assurance that we are going to be here tomorrow, and I don't know what would happen in case of the untimely death of any member of this court. There would have to be another judge appointed. Now, whether that other judge would feel that this informal ruling from the bench would bind him is something I don't know.

We were somewhat in doubt as to just what would happen between June 29 and October 20, or whatever the 120-day period would be.

Judge Jackson: Or between now and next Monday.

Mr. Knuff: Or between now and next Monday. We don't know what would happen, and that is the reason for the order, Judge.

Judge Garrett: However good that reason may be, the order itself is not one that I am willing to sign. I don't think it is quite the duty of the court to point out the reasons for not signing it, but in a general way this causes this [fol. 229] Court to place itself in the position of reversing its own view upon facts. I don't think that it is ever required when a court superior in authority has reversed the inferior court—I don't think it is ever required that the lower court in writing a decree should be placed in the position of having reversed its own view on facts. The decree should be drawn in conformity with the Supreme Court's decision, and the responsibility for it should rest with the Supreme Court.

That is my view of what an inferior court should do. We bend, of course, to the authority of the Supreme Court. There is no question about its authority. However, we ought not to be placed in a position of saying that after our examination—we examined all these things before and we had a different conclusion about it. Another phase of it is—and I might say this now, because I hope another decree will be drawn: "and having concluded that the plaintiff is entitled to judgment as a matter of law in such manner as will effectively pry open to competition a market that has been closed by the defendants' illegal conduct"—well, what does that mean?

If I view it aright, if I understand this matter at all, if this combination or trust is broken up, so far as the record now stands the United States Gypsum Company will, of course, still own all these patents. No decree of this court upon the present state of the record can compel that Gyp- [fol. 230] sum Company to part with its patent rights.

So, I don't know how any decree of this court could pry open to competition a market for those products that are patented, the patents being owned by the United States Gypsum Company. That is that much of it.

Mr. Knuff: The language that was used there was taken almost verbatim from the language of Justice Jackson in the International Salt Company v. United States of America, decided on November 10, 1947. On page 8 of the slip opinion, the court says:

> "The usual ways to the prohibited goal may be blocked against the proven transgressor and the burden put upon him to bring any proper claims for relief to the court's attention. And it is desirable, in the interests of the court and of both litigants, that the decree be as specific as possible, not only in the core of its relief, but in its outward limits, so that parties may know their duties and unintended contempts may not occur.
>
> "The framing of decrees should take place in the District rather than in Appellate courts. They are invested with large discretion to model their judgments to fit the exigencies of the particular case. In an equity suit, the end to be served is not punishment of past transgression, nor is it merely to end specific [fol. 231] illegal practices. A public interest served by such civil suits is that they effectively pry open to competition a market that has been closed by defendants' illegal restraints."

So, I took this language as almost a direct quote from Judge Jackson's language in the International Salt case.

Judge Garrett: That was in the opinion. Did you take it from the decree that was rendered in conformity with that opinion?

Mr. Knuff: I didn't understand.

Judge Garrett: That was taken from his opinion. Did you take it from the judgment or decree that was rendered in conformity with the opinion?

Mr. Knuff: I took it from the opinion.

Judge Garrett: We have to interpret these opinions as best we can.

Mr. Knuff: That is right.

Judge Garrett: The language, perhaps, is right there. I don't know—Were there patents involved?

Mr. Knuff: Yes, sir.

Judge Garrett: Nevertheless, whatever may have been the case there I don't know whether the same patent situation existed in that case that exists here.

Mr. Knuff: The facts of the case were not exactly the same.

[fol. 232] Judge Garrett: That is one reason, Mr. Knuff, why I am unwilling to sign this and these other reasons that I have already given.

I don't think I need go further into it. I am sorry, but I can't sign that. I would be glad to consider a decree that may be drawn here within the time we need fixed.

Chief Justice Stephens: Judge Jackson, do you wish to make any comment?

Judge Jackson: Yes. My thought is quite parallel to that expressed by Judge Garrett, but I would go further. I don't see any necessity for an interlocutory decree.

Of course, a judge may die, attorneys may die, anybody may die in the next minute or next five seconds; and I don't suppose there is any more likelihood that they are going to die in the period of 120 days than in a period of 120 minutes, as far as that is concerned.

I understand from a reading of Rule 56(c), I think you mentioned, of the Federal Rules of Civil Procedure, that it isn't mandatory upon the court at all, but that it may sign at its discretion.

I understand that the practice in the District somewhat varies here. Some judges sign two. My authority for this is Judge Stephens, who investigated the matter. In any event, I think that the record being as it is and our ruling having been as it was, and at the Government's request, [fol. 233] 120 days was given for them to present a decree

in any form, of course, that they may see fit—and that, of course, may be objected to by counsel for the defendants—that no purpose would be served in signing an interlocutory order such as has been presented here.

Therefore, I am of the opinion that the motion here should be denied without prejudice and may be renewed when the decree in 120 days has been formulated, filed, and served on counsel for the defendants, and then we can work it out. After all, it is going to be a decree of court and not a decree of counsel for the Government nor of counsel for the defendants.

I think that is about all I have to say about it.

Chief Justice Stephens: I assume you mean by your remarks, Judge Garrett, that you deny the motion for signing the interlocutory order without prejudice to the right of the Government to present an order of this sort in connection with the final decree.

Judge Garrett: Oh, yes. That may be done. Of course, my view on the matter is pretty definite.

Judge Jackson: It will be the decree of the court. We can strike anything we want or change it or write our own.

Judge Garrett: I would like to present this thought, if I may. Of course, an interlocutory order can't be appealed from. At least, that is the general rule. If we undertook [fol. 234] to lay down here what is in this court, you couldn't take an appeal from it, at least under the ordinary rules of practice. Am I right about this?

Chief Justice Stephens: I think that is right.

Judge Jackson: Under these very rules.

Judge Garrett: And so I think that a decree should be prepared that conforms to the decision of the Supreme Court according to such interpretation as we were able to give it, from which there could be an appeal taken if an appeal was desired to be taken by the defendants.

So, answering your question, Justice Stephens, yes, I have no objection to it being denied without prejudice.

Chief Justice Stephens: I, of course, voted against the motion for summary judgment, and am, accordingly, for the same reasons that I stated in respect of that vote on my part, not in favor of the signing of the interlocutory order.

I may say, however, in support of my colleagues who

constituted a majority of the court on this aspect of the case, that I think they are correct in declining to sign this interlocutory order.

So far as its phrasing is concerned, of course, that can be changed. It is simply a proposed order and when signed it will be the order of the court, and the court can rewrite it.

Rule 56(c), as amended, doesn't require the signing of [fol. 235] an interlocutory order but simply permits it. Moreover, the entry of an interlocutory order appears to be contemplated, under the rule, only in suits where the issue remaining to be determined is as to the amount of damages, rather than as to the nature and extent of injunctive relief.

At any rate, the rule is not mandatory, but is permissive. I think, therefore, Judge Jackson and Judge Garrett are exercising their discretion properly in declining to sign the interlocutory order, without prejudice to the right of the Government to present its decree at the end of 120 days. It was understood, of course, that the action of the majority, granting the motion for summary judgment, would be made effective in a decree, with right or argument on both sides as to its terms.

I may say that I have, in aid of my colleagues in respect to this, made inquiry with respect to the practice in the U. S. District Court. Some of the judges there apparently do sign two orders, Mr. Knuff,—an interlocutory order and a final order. Some of them sign only one. It appears to be the better practice, in the view of the majority, so far as I have been able to find out, to sign only one. I think that would be the better practice in a case of this sort.

[fol. 236] So far as the possibilities of death are concerned, that is something we all have to take a chance on, including the Government and the defendants and the court.

So far as the appealability is concerned, I think Judge Garrett is correct. I do not think the statute giving a right of appeal to the Supreme Court, from a decree of a three-judge court set up under the Expediting Act, contemplates right of appeal from an interlocutory order.

The defendants would, therefore, be in the position, if this decree were entered, of having a judgment entered against them, which might or might not have extrinsic

effects not contemplated by anyone, with respect to which they would have no right of appeal.

In view of the understanding and of the request of the Government for 120 days, it seems to me not quite fair to sign some interlocutory order in a lesser time and without any reasonable opportunity for discussion of its terms

So I think that the position taken by my colleagues as to the signing of this proposed order is correct although, as I say, I would myself decline to sign it for the additional reason, to-wit, I think the motion for summary judgment should not be granted. That, however, I have expressed myself on previously.

The record then may show that the presiding judge votes against signing the interlocutory order on the grounds [fol. 237] stated by him at the last session of the court in respect of the motion for summary judgment and that the majority of the court, Judge Jackson and Judge Garrett, decline to sign the order for the reasons which they stated, but they do so without prejudice to the right of the Government to present 120 days from June 29 a proposed final decree granting summary judgment and defining affirmative relief.

While we are present, I think I will take the time of those who are here to correct this record.

Before we do that, let us show who are present today.

I will call the roll of the parties.

Mr. Lynch is here representing U. S. Gypsum.

Mr. Lynch: Yes, sir.

Chief Justice Stephens: National? Is National being represented today by anyone?

Mr. O'Donnell: Mr. Chase is out of town.

Chief Justice Stephens: Certain-teed?

Mr. Courtney: I am appearing on behalf of Mr. Ogburn.

Chief Justice Stephens: In place of Mr. Ogburn for Certain-teed?

Mr. Courtney: That is right.

Chief Justice Stephens: Celotex Corporation?

Mr. Wanlass: Yes, sir.

Chief Justice Stephens: Ebsary?

(No response.)

[fol. 238] Chief Justice Stephens: Newark?

Mr. O'Donnell: Newark and Frederick Tomkins.

Chief Justice Stephens: Samuel Gloyd?

Mr. Goodner: Yes, George Goodner.

Chief Justice Stephens: And Sewell Avery is represented also by Mr. Lynch.

Mr. Knode by Mr. Lynch.

Mr. Baker by Mr. Lynch.

Hartley was connected with Ebsary, was he not?

Mr. Knuff: Hartley was president of Certain-teed.

Chief Justice Stephens: Tomkins has been mentioned.

In order to save time, since we are present, I have read this record, and I think we had better make these corrections while we are here. This is the record of the proceedings on June 29. The court has the following corrections to suggest:

Page 7941. I have these a little out of order. I discovered some of them on a second reading. Page 7941, line 4. This is a small point, Mr. Court Reporter, but the word "Court" should not be capitalized. The same thing is true in line 9. In line 15, the comma after the word "defendants" should be eliminated. Line 25. The word "Court" should not be capitalized, and a period should be put after "120 days"; and the words "so far as this case is concerned," being the last words on page 7941 and [fol. 239] the first words on page 7942, should be stricken as not pertinent, there being no other case before this court.

The court reporter shouldn't capitalize the word "court" except as applied to the Supreme Court of the United States. Wherever that is capitalized in judicial printing, it means the Supreme Court of the United States. It makes the record confusing to capitalize that word when it does not refer to the Supreme Court.

Page 7942 has been covered.

Going back to the beginning, page 7839, line 11, there should be a colon rather than a period after the word "upon."

Page 7840, line 2. The word "authority" should be in the plural, "authorities." Line 3, the word "we" should be changed to the word "he." Line 19. The first word "this" in the line should be stricken out—and also the comma—it has been printed twice. Line 22. The word "when" should be stricken. Line 23. The word "says"

should be changed to "holds" and after that there should be printed the word "that" with a colon, making it read "if it holds that:"

Page 7841, line 1. There should be a period after the word "more" and the word "because" should have a capital "B" at the beginning, and the word "the" should be the article "a."

Also back on page 7840, the quotation marks should be taken out in front of the words "The General Electric" in [fol. 240] line 24. I am not purporting to be quoting there.

Judge Jackson: And the end quotation marks?

Chief Justice Stephens: The end quotation marks on page 7841, line 6, should be taken out.

Page 7842, line 15. The words "question of an" should be stricken out so that the parenthetical phrase will read "(by which I assume you refer to the agreement to fix prices," etc. Line 18 of the same page where it says "to eliminate patented open-edged board," it should read "unpatented open-edged board." Line 19. The word "a," the last letter, should be stricken out. Line 20. The word "charge" should be "charged," so that it reads "and the agreement to fix the resale price of manufacturing distributors as charged) can easily be taken care of in a decree?" Line 21, after the word "those" the word "issues" should be inserted, which would make it read "How can we take care of those issues in a decree." Line 23. The words "the question or" should be stricken out, making it read "unless we reach also the conclusion."

Page 7851, line 15. After the word "you" the word "not" should be inserted. I said, "Are you not unavoidably thrown back." Line 17. There should be a question mark after the word "concert"; a capital letter on the next word "because." Line 19. After the word "licensed" at the end of the line, the word "one" should be written in, making it read "licensed one to manufacture." Line 25. [fol. 241] The word "a" should be written at the end of the line, so that it reads "Yet, the Supreme Court apparently does not condemn as a monopoly.

Page 7852, line 4. After the word "tungsten" there should be a period, and the word "and" following that should be stricken out and the word "the" should be capitalized, so you have a new sentence reading "The Supreme

Court apparently does not condemn", et cetera. Line 8. After the word "licensees" insert a comma. Line 12. The word "is" after the word "monopoly" should be stricken out. What was said was "The Supreme Court holds that monopoly not illegal"—"monopoly is not illegal" doesn't make sense. The word "is" should be stricken out. In line 14 there should be a period placed after the word "illegal", and a new sentence commencing "But it apparently holds". Line 18. There should be a period after the word "license". The word "and" should be stricken out and the next word "therefore" should have a capital "T". The sentence was mispunctuated.

Page 7853, line 18. The words "it commands us" should be stricken out and the words "we are commanded" should be written in. In line 19, the word "its" should be stricken out and the words "the Court's", there in the possessive singular, should be written in front of the word "decisions."

Page 7854, line 2. The first word should be the word "that" and not the word "as". Line 3. The word "and" [fol. 242] after the word "heard" should be the word "to". There should be a comma after the word "heard" preceding that, and the last word in the line, the word "of" should be stricken out.

Page 7859, line 6. The word "statements" should be "restatements". Mr. Steffen had said just prior to that "Those are restatements of fact". I repeated his phrase "restatements".

Page 7879, line 4. Put a period after the word "evidence". Line 5. The first word should be capitalized, the word "but". Line 6. The word "issued" should be "issues". Line 8. The words "or not to" should be stricken out and in their place should be written in the words "determination of". That is an editing change to make the sentence more clear, making it read "which inferences lead to determination of the ultimate facts in issue in the case". Line 9. The word "and" should be stricken out and the word "that" put in, in its place. After the word "was" the word "thus" should be written in, making it read "where there is a dispute as to the inferences to be

drawn from admitted facts, which inferences lead to determination of the ultimate facts in issue in the case—that there was thus an orthodox conflict", et cetera.

Page 7887. The word "not" should be put in after the word "would" in line 2. Judge Jackson said "But they had their own machinery. They would not have had to [fol. 243] retool to do it."

Page 7890. That is a small matter of punctuation. After the word "things" in line 23 take out the comma.

Page 7893, line 21. After the word "Bromley" put a period and put a capital letter on the word "the" which immediately follows. After the word "far" in line 22, put in the word "is", so that the sentence reads "The greatest defect I see in your argument so far, is that it seems entirely reasonable."

Page 7903, line 19. I may have misspoken. I should have said General Electric case and not Gypsum case. Strike out "Gypsum" and write in the words "General Electric".

Page 7922, line 17. After the word "the" and before the word "supplement" write in the word "Federal" and capitalize the word "supplement". Line 22. Strike out the words "giving the" and write in the word "citing".

Page 7911, line 16. The word "Has" should be "Have". The word "court" should be in the plural, making the sentence read "Have the courts ruled", et cetera, referring to the courts' rulings generally.

Page 7913. The word "the" in the first line should be the word "a." That is the first word "the." The second word "the" should also be the word "a". In line 2, the second word "the" before the word "answer" should be the word "his", making the sentence read "On a motion [fol. 244] for summary judgment, if a defendant can make out that the issues raised by his answer are genuine", et cetera.

Page 7923, line 5. The word "The" should be the word "Then". It should read "Then citations are given." Line 13. Strike out the words "in the sense of" and strike out the letters "ing" after the word "condemn", and write in the word "to" so that it reads "But unless you are aiming at proving an effectuated conspiracy, to condemn the overt

acts", et cetera. Line 16, the word "proof" after the word "circumstantial" should be stricken out.

Page 7928, line 18. It should read "the monopoly" rather than "that monopoly".

Page 7930, line 1. The word "In" should be inserted before the word "The" and the word "The" should have a small letter, making it read "In the one which I first read, it seems arguable that the Supreme Court was holding that a plurality of licenses", et cetera. In line 2 the word "the" before the word "plurality" should be changed to the word "a". In line 3, the word "was" should be changed to the word "is". Also in line 3, the word "said" next to the last word in the line should be the word "says".

Page 7931, line 12. The word "was" should be the word "is".

Page 7932. Line 21. After the words "question of the" insert the words "legality of", and in place of the word [fol. 245] "the" insert the word "a", making it read "Perhaps, therefore, the Supreme Court was not intending there to rule definitely upon a question of the legality of plurality of licenses."

There is a statement at the bottom of page 7931 reading:

> "Now, I confess that I have always thought that it was clear law that in order to make declarations admissible, you didn't have to prove an unlawful conspiracy by evidence aliunde", et cetera.

I am not quite sure that is what Mr. Bromley said, but I don't assume to change the comments of counsel.

Page 7935, line 5. Judge Garrett used the word "proffers" in the plural. There were several proffers. The same thing is true in line 9, the word "proffer" should be changed to the word "proffers". Line 17, the word "question" should be changed to the word "questions", in the plural.

Page 7936, line 11. Strike out the word "and" after the word "issues" and put in a dash. In line 12, put a dash after the word "fact". After the word "case" in line 13, put another dash and start the next phrase with a small letter, reading "the issues". In line 14, change the word "of" to the word "from".

Mr. Knuff: First "of" or second "of"?

Chief Justice Stephens: Second "of". So it reads "and from the defendant's answers", et cetera.

In line 18, Mr. Court Reporter, that word "Topic 5" [fol. 246] should be printed in a Roman numeral rather than Arabic. The Supreme Court numbered its topics in Romans.

Page 7937, line 7. It should read "a plurality of licenses" rather than "the plurality of licenses", changing "the" to "a". Line 16, change the word "the" toward the end of the line to the word "this", and print the "Court" without a capital, referring to the District Court and not the Supreme Court. Line 23. The word "would" instead of the word "could".

Page 7938, line 4. The word "its" should be changed to the word "their". Line 5. The word "its" should be changed to the word "their", and the word "answer" should be in the plural, "answers". Line 18. Again the phrase "the Court" should be changed to "this court", with a small "c" on the word "Court".

Page 7939, line 18. The word "might" should be changed to the word "may". Line 16. The word "that" before the word "while" should be stricken out.

Page 7941, line 4. The word "Court" should not be capitalized. Line 9. The word "Court" should not be capitalized. Line 15. The comma should come out after the word "defendants". I made these corrections before.

There is one other place where you used the word "plaintiffs", Mr. Court Reporter, in place of the word "defendants". It is in one of your headings where you referred [fols. 247-248] to the plaintiffs and meant defendants. If you look through your headings, you will find one place where you had Mr. Bromley representing the plaintiff or Mr. Steffen or Mr. Knuff representing the defendants, I have forgotten which.

Page 7923. I think the sense of the correction which I made in line 13 would be improved if I put a comma after the word "conspiracy".

If there is nothing further, the court will be in recess until the expiration of the 120 days from June 29, at which time the Government will present a proposed decree.

(Whereupon, at 11:55 a.m., a recess was taken until 120 days from June 29, 1948.)

[fol. 249] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

Civil Action No. 8017

UNITED STATES OF AMERICA, Plaintiff,

v.

UNITED STATES GYPSUM COMPANY; NATIONAL GYPSUM COMPANY; Certain-Teed Products Corporation; The Celotex Corporation; Ebsary Gypsum Company, Inc.; Newark Plaster Company; Samuel M. Gloyd, Doing Business Under the Name of Texas Cement Plaster Company; Sewell L. Avery; Oliver M. Knode; Melvin H. Baker; Henry J. Hartley; and Frederick Tomkins, Defendants

PLAINTIFF'S PROPOSED DECREE—Filed April 19, 1950

This cause having duly come on to be heard on motion of plaintiff for a summary judgment, filed at the request of the Court, pursuant to Rule 56 of the Federal Rules of Civil Procedure, as amended, or in the alternative, for such further proceedings as the Court should order, based upon the existing state of the record; and the Court having considered the pleadings in the action and all proceedings heretofore had herein, including all exhibits and testimony of witnesses, the admissions by counsel for the defendants, the proffer of proof submitted pursuant to the Court's request of June 8, 1948, by all defendants, except National [fol. 250] and Ebsary which defendants did not submit any proffer of proof; having read and considered the briefs submitted on behalf of the parties hereto; having heard oral argument; having found that there is no genuine issue as to any material fact except as to the proper inferences to be drawn from the exhibits and uncontradicted testimony of witnesses who testified at the trial of this cause, and also except as to the scope and extent of the relief to be granted; and the Court having made findings of fact and conclusions of law wherein the defendants have been found to have violated Sections 1 and 2 of the Sherman Act, 26 Stat. 209, 15 U.S.C.A. Sec. 1 and 2;

Now, therefore, upon motion of plaintiff by its attorneys for relief in accordance with the prayer of the complaint, and the defendants having severally appeared by counsel,

It is Ordered, Adjudged and Decreed:

I

That the Court has jurisdiction of the subject matter herein and of all the parties hereto; that the complaint states a cause of action against defendants under the Act of Congress of July 2, 1890, entitled "An Act to Protect Trade and Commerce Against Unlawful Restraints and Monopolies," commonly known as the Sherman Anti-trust Act and the acts amendatory thereof and supplemental thereto.

II

That for the purpose of this decree:

1. "Said defendants" shall mean all the corporate defendants and the individuals named in the caption of this decree.

[fol. 251] 2. "Corporate defendants" shall mean all the defendants mentioned in the caption of this decree except the named individuals and Texas Cement Plaster Company.

3. "Gypsum products" shall mean those products used primarily in the building construction industry made from gypsum, including but not limited to, plaster, plasterboard, lath, wallboard (the latter three may be ordinary, perforated, or metallized), special surfaced gypsum board, sheathing, liner board, block, tile, and Keene's cement.

4. "Gypsum board" shall mean all the gypsum products enumerated in subparagraph 3 except plaster, block, tile, and Keene's cement.

5. "Patents" and "patent applications" shall mean United States Letters Patent and applications for United States Letters Patent, respectively, and continuations, continuations-in-part, renewals, reissues, divisions, and extensions thereof.

III

That said defendants, and each of them, have contracted, combined, and conspired to restrain trade and commerce

in gypsum products and have monopolized, attempted to monopolize, combined and conspired to monopolize trade and commerce in gypsum board among the several States, in violation of Sections 1 and 2 of the Sherman Antitrust Act.

[fol. 252]

IV

That the provisions of this decree applicable to any defendant shall apply to such defendant and to each of its officers, directors, agents, attorneys, servants and employees, and to each of its successors and assigns, and to all persons acting or claiming to act, under, through or for such defendant.

V

That the said defendants, in connection with the offering for sale, sale, and distribution of gypsum products in interstate commerce, be and each of them hereby is jointly and severally enjoined and restrained from entering into, continuing, cooperating in, or carrying out any planned common course of action, undertaking, agreement, combination, or conspiracy between any two or more of said defendants, or between any one or more of said defendants and others not parties hereto, to do or perform any of the following things:

1. To fix, establish, maintain, control, or make uniform the prices, terms and conditions of sale at which gypsum products shall be sold or resold;

2. To fix, establish, maintain, or make uniform the kinds, types, or varieties of gypsum products manufactured or sold; or the methods of manufacturing, selling, packaging, shipping, delivering, or distributing gypsum products, for the purpose or with the effect of aiding or assisting in arriving at or maintaining uniform prices, terms and conditions of sale of such products;

3. To refrain from the manufacture, sale, or distri- [fol. 253] bution of any kind, type, or variety of gypsum products; or the method of manufacturing, selling, packaging, shipping, delivering, or distributing gypsum products, for the purpose or with the effect of

aiding or assisting in arriving at or maintaining uniform prices, terms and conditions of sale of such products;

4. To refrain from selling to or distributing gypsum products to any purchaser or any class of purchasers of such products;

5. To use, determine, agree upon, or adhere to any system of quoting or selling gypsum products at prices calculated or determined pursuant to or in accordance with the basing-point delivered-price system; or quoting or selling gypsum products pursuant to or in accordance with any other plan or system which results in identical price quotations or prices for gypsum products at points of quotation or sale or to particular purchasers by defendants using such plan or system, or which prevents purchasers from finding any advantage in price in dealing with one or more of the defendants against any other defendant;

6. To use, compile, circulate, or exchange information concerning common carrier transportation charges or other freight or delivery charges used or to be used as a factor in computing the price of gypsum products;

7. To use, determine, agree upon, or adhere to any basis for the selection or classification of purchasers of gypsum products;

8. To use, determine, agree upon, or adhere to any methods, means, conditions, practices, or delivery [fol. 254] points or areas used or to be used in selling, shipping or distributing gypsum products;

9. To directly or indirectly police, investigate, check, or inquire into the prices, quantities, terms and conditions of any offer to sell, sale or resale of gypsum products for the purpose or with the effect of aiding or assisting in maintaining uniform prices, terms and conditions of sale of such products;

10. To hold meetings, gatherings, or conferences for the purpose or with the effect of aiding or assisting in maintaining uniform prices, terms and conditions of sale of gypsum products.

VI

1. That defendant United States Gypsum Company is hereby ordered and directed to grant to each applicant therefor, but only insofar as it has the right to do so, a non-exclusive license to make, use and vend under any, some, or all patents and patent applications now or hereafter owned or controlled by it relating to gypsum products, their processes or methods of manufacture, or their uses.

2. That defendant United States Gypsum Company is hereby enjoined and restrained from making any sale or other disposition of any of said patents or patent applications which deprives it of the power or authority to grant such licenses, unless it sells, transfers or assigns such patents and patent applications and requires, as a condition of such sale, transfer or assignment, that the purchaser, transferee or assignee shall observe the requirements of Sections VI and XI of this decree and the purchaser, transferee or assignee shall file with this Court, [fol. 255] with notice thereof to the Attorney General, prior to consummation of said transaction, an undertaking to be bound by the provisions of Sections VI and XI of this decree.

3. That defendant United States Gypsum Company is hereby enjoined and restrained from including any restriction or condition whatsoever in any license or sublicense granted by it pursuant to the provisions of this section except that: (a) the license may be non-transferable; (b) a reasonable non-discriminatory royalty may be charged, provided, however, that the royalty so charged may not be imposed upon or measured by patent-free products, processes or uses; (c) reasonable provision may be made for the cancellation of the license upon failure of the licensee to pay the royalties as hereinabove provided; (d) the license must provide that the licensee may cancel the license at any time by giving 30 days' notice in writing to the licensor; and (e) the license must provide that the licensee shall immediately have the benefit of any more favorable terms granted other licensees. Without limiting the generality of anything hereinbefore provided, the license may not contain any provision authorizing,

allowing, or permitting defendant United States Gypsum Company to inspect the books and records of any licensee.

4. That upon receipt of written request for a license under the provisions of this section, defendant United States Gypsum Company shall advise the applicant of the royalty which it deems reasonable for the patents or patent applications to which the request pertains. If the parties are unable to agree upon a reasonable royalty within 60 days from the date such request for the license was received by United States Gypsum Company, the applicant therefor [fol. 256] may forthwith apply to this Court for the determination of a reasonable royalty, and United States Gypsum Company shall, upon receipt of notice of the filing of such application, promptly give notice thereof to the Attorney General with the right to be heard thereon. In such proceeding, the burden of proof shall be on United States Gypsum Company to establish the reasonableness of the royalty requested by it, and the reasonable royalty rates, if any, determined by the Court shall apply to the applicant and all other licensees under the same or substantially the same patents or patent applications. Pending the completion of negotiations between the parties or any proceeding before this Court, the applicant shall have the right to make, use and vend under the patents or patent applications to which his application pertains without payment of royalty or other compensation, but subject to the provisions of subsection 5 of this section.

5. That where the applicant has the right to make, use and vend under patents or patent applications under subsection 4 of this section. United States Gypsum Company may apply to the Court to fix an interim royalty rate pending final determination of what constitutes a reasonable royalty, if any. If the Court fixes such interim royalty rate, United States Gypsum Company shall then issue and the applicant shall accept a license, or as the case may be, a sublicense, providing for the periodic payment of royalties at such interim rate from the date of the filing of such application by the applicant. If the applicant fails to accept such license or fails to pay the interim royalty in accordance therewith, such action shall be grounds for the dismissal of his application. Where

an interim license or sublicense has been issued pursuant to this subsection, reasonable royalty rates, if any, as finally determined by the Court shall be retroactive for the applicant and all other licensees paying a higher royalty rate [fol. 257] under the same or substantially the same patents or patent applications to the date the applicant files his application with the Court.

6. Nothing herein shall prevent the plaintiff or any applicant from attacking, in the aforesaid proceedings or in any other proceedings, the validity or scope of any patents or patent applications nor shall this decree be construed as importing any validity or value to any of said patents or patent applications.

VII

1. That each and all of the patent license agreements, contracts, assignments, and other arrangements relating to board, metallized board, and perforated lath which have been heretofore entered into between United States Gypsum Company and each of the other corporate defendants or their predecessors and with defendant Samuel M. Gloyd, are hereby cancelled; such cancellation to be effective upon the execution by United States Gypsum Company and each of the other defendants of a uniform license agreement pursuant to Section VI hereof, or upon the expiration of sixty days from the date of the entry of this decree, whichever is earlier.

2. That from and after the effective date of the cancellation provided for in subsection 1 of this section, each defendant is hereby enjoined and restrained from the further performance of any such agreement, contract, assignment or other arrangements, and from adopting, adhering to or entering into any future substantially similar agreement, contract, assignment or other arrangements.

VIII

That each of said corporate defendants and defendant Samuel M. Gloyd is hereby enjoined and restrained, [fol. 258] directly or indirectly, from conditioning the sale of any kind, type or variety of gypsum products to any purchaser thereof upon the procurement by said purchaser

of any other kind, type or variety of gypsum or other products whatsoever from any of said defendants or from any other designated source.

IX

That each of said corporate defendants and defendant Samuel M. Gloyd is hereby directed to sell gypsum board which is then being or about to be offered or shall have been offered by any such defendant in the United States, to any other manufacturer of gypsum products at non-discriminatory prices, terms and conditions; provided that:

1. Gypsum board is available for such purposes;
2. Any such defendant shall not be required to sell unless it is offering, about to offer, or has offered the type, kind or variety of gypsum board within the United States and at any time any defendant may discontinue the business of selling gypsum board;
3. Such sale is not required to be made without cash payment or security to any manufacturer of gypsum products not having proper credit rating; and
4. The sale price may differ from time to time as to different types or kinds of gypsum board so long as the sale price at any one time is uniform to all buyers alike as to each type or kind of gypsum board.

X

1. That each of said corporate defendants and defendant [fol. 259] Samuel M. Gloyd, while engaged in the manufacture and sale of gypsum products, is hereby enjoined and restrained from acquiring, purchasing, acquiring and holding or acquiring and controlling, directly or indirectly, or through agents, representatives, or nominees, the business or assets or capital stock or bonds of any other defendant herein.

2. That each of said corporate defendants and defendant Samuel M. Gloyd, while engaged in the manufacture and sale of gypsum products, is hereby enjoined and restrained from acquiring, purchasing, acquiring and holding or acquiring and controlling, directly or indirectly, or through agents, representatives or nominees, the business or assets

or any measure of control over the business of any competing corporation, firm, or individual so engaged, unless and until any such acquisition is approved by this Court, after reasonable notice to the Attorney General with an opportunity to be heard thereon; provided, however, that this subsection of this section shall not prevent any of the corporate defendants or defendant Samuel M. Gloyd from acquiring, purchasing, acquiring and holding or acquiring and controlling the business or asssets or capital stock or bonds of any corporation, firm, or individual engaged in business solely outside the territorial limits of the United States and its possessions.

3. That the defendants Sewell L. Avery, Oliver M. Knode, Melvin H. Baker, Henry J. Hartley, Frederick G. Ebsary, and Frederick Tomkins and each of them, while officers or directors of any of the corporate defendants engaged in the manufacture or sale of gypsum products, is hereby enjoined and restrained from acquiring, purchasing, acquiring and holding or acquiring and controlling, directly or [fol. 260] indirectly, or through agents, representatives, or nominees, any measure of control through ownership of stock or bonds or otherwise of any corporation, firm, or individual so engaged competing with the corporation with which he is officially connected unless any such acquisition is approved by the Court, after reasonable notice to the Attorney General with an opportunity to be heard thereon; provided, however, that this subsection of this section shall not prevent any of the above-named individuals from acquiring, purchasing, acquiring and holding or acquiring and controlling the business or assets or capital stock or bonds of any corporation, firm, or individual engaged in business solely outside the territorial limits of the United States and its possessions.

XI

That the attorney General of the United States or his proper representative shall, for the purpose of securing compliance with this decree, be permitted (1) access, during the office hours of the said defendants, to all books, ledgers, accounts, correspondence, memoranda, and other records and documents in the possession or under control of said defendants, relating to any matters contained in this decree,

(2) subject to any legally recognized privilege, without restraint or interference from the defendants, to interview officers or employees of the defendants, who may have counsel present, regarding any such matters; provided, however, that information obtained by the means permitted in this section shall not be divulged by any representative of the Department of Justice to any person other than a duly authorized representative of the Department of Justice except in the course of legal proceedings, for the purpose of secur- [fols. 261-264] ing compliance with this decree in which the United States is a party or as otherwise required by law.

XII

That judgment is entered against the said defendants for all costs to be taxed in this proceeding.

XIII

Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound, in whole or in part, thereby to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith and the punishment of violations thereof.

—— ——.

[fol. 265] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

[Title omitted]

MEMORANDUM IN OPPOSITION TO PLAINTIFF'S PROPOSED DECREE, FINDINGS AND CONCLUSIONS—Filed March 4, 1949

This memorandum is submitted by the defendants in opposition to the proposed decree, findings of fact and conclusions of law submitted by plaintiff upon the motion for summary judgment herein. Defendants object generally to such proposed decree, findings and conclusions upon the

ground that they go far beyond the scope of the issues determined by this Court upon plaintiff's motion for summary judgment. In addition, such proposed decree, findings and conclusions are specifically objectionable upon grounds hereinafter stated.

I

In Granting Plaintiff's Motion for Summary Judgment, this Court Decided the Issue Presented by the Motion and Did Not Purport to Determine in Plaintiff's Favor All Issues Presented by the Pleadings.

Plaintiff's proposed findings, conclusions and decree purport to cover the charges made in the complaint, including the allegations under the general headings of The Formation of the Combination, The Operation of the Combination, and The Effect of the Combination. It therefore becomes necessary at the outset to consider the nature of the conspiracy specifically charged in the complaint and the nature of the conspiracy which plaintiff, on its motion for summary judgment, contended was conclusively established on the present record.

The complaint charges that the defendants are parties to contracts and actively engaged in a continuing combination and conspiracy to restrain trade and commerce in gypsum board, plaster and miscellaneous gypsum products and to [fol. 266] monopolize such trade and commerce, among the several states in the eastern area of the United States in violation of Sections 1 and 2 of the Sherman Antitrust Act (Compl., Pars. 44, 45), by concertedly (a) raising and fixing at arbitrary and non-competitive levels the prices of gypsum board, (b) standardizing gypsum board and its method of production, (c) raising, maintaining and stabilizing the general level of prices for plaster and miscellaneous gypsum products, (d) refraining from distributing gypsum board, plaster, and miscellaneous gypsum products through jobbers, and (e) inducing and coercing manufacturing distributors to resell gypsum board at prices fixed by defendants; that the combination was entered into and carried out in part under the guise of numerous license agreements under patents owned by the defendant USG; and that to give color of legality to the combination the defendants

concertedly agreed among themselves to enter into and did enter into said license agreements which were not *bona fide* but entered into for the illegal purposes described in paragraphs 44 and 45 (Compl., Par. 46).

With respect to The Formation of the Combination, the complaint alleges that the combination was formed between September, 1925 and early 1930, having its roots in litigation which made the manufacture of closed-edge board impossible without infringement of USG's patents (Compl. Pars. 47-54; R. 11-13); that Avery of USG, Blagden of Beaver, and Griswold of American agreed among themselves (between September 1925 and July 1926) to induce the industry to enter into licenses with USG to effectuate long-term price stabilization of the gypsum board industry, Blagden and Griswold to act as liaison between USG and the industry for that purpose (Compl. Pars. 55-63; R. 13-15); that between July and September, 1926 Beaver and Universal accepted USG's proposed license with price control, and Griswold and Blagden continued to agitate at meetings and conferences for the execution of licenses by the rest of the industry, as a result of which and the persuasions of Blagden, Griswold and Avery, Atlantic and Texas entered into licenses in March and April, 1927 (Compl. Pars. 64-66; (R. 15-16); and that from April, 1927, to May 1929, during a price war in the industry, Holland of Universal agreed with Avery to promote the licensing plan at meetings held in late 1928 and early 1929, and Avery, to induce other companies to join, assured them that USG, upon expiration of the Utzman patent in August, 1929, would take steps to control prices thereafter under color of some patent (Compl. Pars. 67-75; R. 16-18).

The complaint in this connection further alleges that in May, 1929, National, Certain-teed, Ebsary and Niagara entered into licenses in reliance upon Avery's assurance of further price control and pursuant to an agreement among themselves and USG to do so; that in addition USG and its licensees agreed that the manufacture of open-edge and [fol. 267] second-grade closed-edge board would be discontinued, that USG would advance and stabilize prices for patented board, that all companies would increase their prices for plaster and miscellaneous gypsum products as

board prices increased, and that USG would continue price control after expiration of the Utzman patent through use of other patents (Compl. Pars. 76-77; R. 18-19); that from June to October, 1929, pursuant to its agreement for continued price control and to give color of legality thereto, USG offered licenses to its licensees under its foam or bubble patent applications; that pursuant to agreements between USG and its licensees to grant and take licenses thereunder, USG acquired the Haggerty and Hite starch patents from Universal and executed licenses covering the foam process and the starch patents (Compl. Pars. 78-84; R. 19-20); that the October and November 1929 license agreements were entered into between USG and its licensees, and American and Kelley, under the bubble invention and starch patents, pursuant to said agreements and for the purpose of continuing price control; and that by virtue of those agreements USG, by 1930, was authorized to control all board prices and all companies except Texas (until 1937 when it also took a license) were obliged to manufacture a uniform, standardized board (Compl. Pars. 85-88; R. 20-22).

With respect to The Operation of the Combination, and The Effect of the Combination, the complaint alleges in considerable detail that pursuant to the agreements as aforesaid prices of board were raised, stabilized and maintained at high, arbitrary and noncompetitive levels; that USG and its licensees concertedly standardized production of board; that after meetings and discussions they concertedly eliminated jobbers through the elimination of the jobbers' discount; that they concertedly controlled prices and methods of distributing unpatented gypsum board, plaster and miscellaneous gypsum products; that they concertedly controlled the prices at which manufacturing distributors resold board; that for the purpose of extending and strengthening the operation of the basic license agreements, the metallized board and the perforated lath licenses were entered into; and that by means of the combination the defendants have controlled and dominated the manufacture and distribution of gypsum board, plaster and miscellaneous gypsum products in the Eastern Area, have eliminated certain factors from the distribution system, and have maintained uniform and non-competitive prices

in board, plaster and miscellaneous gypsum products higher than those prevailing when the combination was formed in 1929 (Compl. Pars. 90-123; R. 23-32).

This Court, in an exhaustive review of the law and the facts, concluded at the close of the Government's case that the conspiracy as charged in the complaint had not been proved and that the patent license contracts and price bulletins were legal within the doctrine of the *General Electric* case, 272 U. S. 476 (D. C. Op., R. 3934-4131). Accord-
[fol. 268] ingly, at the close of the Government's case it ordered the complaint dismissed.

Following the reversal of that judgment by the Supreme Court, plaintiff moved for summary judgment in its favor on the ground that adherence by the defendants, in an entire industry, to the price provisions of patent licenses, with knowledge of the adherence thereto by the others, constituted concert of action in violation of the Sherman Act.

Thus plaintiff contended that under the Supreme Court's opinion, the *General Electric* case did not authorize a patentee to issue to all competitors in an entire industry a plurality of licenses containing price-fixing clauses and that such plurality of licenses and adherence to the price provisions thereof constituted concert of action in restraint of trade despite the assumed legality of each separate patent license, under the doctrine that lawful acts may become unlawful when taken in concert (Pltf.'s Sum. J. Br., 24-5).

Such concert of action being the gist of the offense, counsel urged that plaintiff had only to establish its existence, without any issue as to a material fact, and that all of the other abuses normally constituting a violation of the Sherman Act could be laid aside. In answer to the Court's question, counsel said that for purposes of the motion it was not essential to show those violations; that if price control alone were shown there was a case; and that it was the Governments' intention to ask for summary judgment on that basis (Tr. 7814-15).

In this connection counsel stated the essential elements he had to establish, namely, whether the defendants, erstwhile competitors, had combined to fix prices, and whether that is so clear that there was no genuine issue as to any material fact. He pointed out that there was no question that they

were former competitors; that they all took out licenses which contained a price-fixing agreement; and that all that remained was to show concert of action by showing that at some time they learned there were other competitors in the industry all guiding themselves by USG bulletins (Tr. 7822, 7824-5). None of the licensee defendants ever denied that it took a patent license contract and adhered to the minimum price bulletins issued by USG, the licensor defendant.

Finally, to establish its position, plaintiff asserted it had shown: (1) that the patent license contracts admittedly were executed by the several defendants and the price bulletins issued thereunder were adhered to by them (Tr. 7824-5), (2) that at the meeting of May 23, 1929, USG offered a license under the foam application to any of the licensees who desired it, which licenses were subsequently accepted by the licensees and signed in November 1929 (Tr. 7823), (3) that defendants admitted the formation by USG in 1932 of Board Survey and the subsequent policing by it of the board prices (Tr. 7831-32), (4) that it was admitted that at the meeting of October 17, 1932, the defendants learned they were all operating under similar licenses [fol. 269] and price bulletins (R. 7832), (5) that it was admitted that all of the licenses provided for price control (Tr. 7834-5), and (6) that counsel for the defendants admitted before the Supreme Court that because of the most-favored nation clause in the patent licenses each of the licensees must have known that it was participating in a general plan (Tr. 7836-7).

Counsel argued from this that there was a clear-cut case of the defendants, erstwhile competitors, going into a plan to license the entire industry and fix prices, each eventually knowing that the others were in the plan; that there was a combination or conspiracy under Section 1 of the Sherman Act without the necessity of showing any intent; and that the Supreme Court of the United States had so held (Tr. 7835-7).

Upon the same showing, plaintiff contended that there was no genuine issue as to any material fact concerning the existence of a monopoly under Section 2 of the Sherman Act (Tr. 7848-51, 7854).

In the light of the allegations of the complaint and the

proceedings heretofore had in this case, the charges of conspiracy here involved may be classified as follows:

(1) The charge that defendants, competitors in an entire industry, by severally entering into individually lawful patent license agreements with price limitation provisions adhered to by them with knowledge of the adherence of the others, acted in concert to restrain trade in gypsum board (sometimes, for convenience, referred to herein as "combination by plurality of licenses"); and

(2) The charge that defendants entered into a plan or scheme to fix prices and control the production and distribution of gypsum board and other gypsum products, in part by the execution of patent licenses, adopted to disguise defendants' illegal purposes and in part by agreements relating to unpatented products (as more fully set forth in the complaint), and have thereby conspired to restrain trade in gypsum board (sometimes for convenience, referred to herein as "conspiracy extrinsic to the plurality of licenses").

The Court, upon its construction of the Supreme Court's opinion and the showing made by plaintiff of the admissions with respect to the execution of the patent license contracts with price limitation adhered to by the licensees, as above stated, concluded that the defendants had acted in concert to restrain trade and commerce in patented gypsum board among the several states in the eastern territory of the United States in violation of the Sherman Anti-Trust Act. Thus, the Court determined the motion for summary judgment upon the ground that the defendants had become parties to a "combination by plurality of licenses." It did not decide that defendants had become parties to a "conspiracy extrinsic to the plurality of licenses".

[fol. 270] II

Plaintiff's Proposed Decree, Findings and Conclusions Are Improper In Their Entirety

The principles of law applicable to framing an equity decree are clear. Because the purpose of a decree is remedial, not punitive, a court must take care that a "decree be

no more drastic than the facts of the case and the law demand", *United States* v. *E. I. du Pont de Nemours & Co.*, 188 Fed. 127, 153 (C. C. Del., 1911), and bear a "fair relation to the issue which was heard and determined," *N. L. R. B.* v. *Swift & Co.*, 108 F. (2d) 988, 990 (C. C. A. 7th, 1940). This is not to say that a decree can deal only with the exact violations found to have been committed, but a court "cannot issue a general injunction against all possible breaches of the law," *Swift & Co.* v. *United States*, 196 U. S. 375, 396 (1905). A court is bound to frame its decree so as to suppress only "the unlawful practices and to take such reasonable measures as would preclude their revival," *Ethyl Gasoline Corporation* v. *United States*, 309 U. S. 436, 461 (1940).

The necessity and propriety of any particular provision can be determined only by examining the precise nature and extent of the violation of law found to exist, its consequences, and the purposes and intent of the violators. An injunction appropriate in such flagrant cases of continuing, broad and purposeful conspiracies as those found to have existed in other cases such as *United States* v. *Hartford-Empire*, 323 U. S. 386 (1945), would obviously be inappropriate and punitive in this case.

(a) The Proposed Decree

Upon the plaintiff's theory of the case it is entitled to a decree within the scope of the determination made on the motion for summary judgment, *i.e.*, that the defendants, competitors in an entire industry, had acted in concert to restrain trade and commerce under the patent license contracts with price limitation adhered to by them with knowledge of the adherence of the others. It does not follow, upon the present state of the record, that because the Court held that the price provisions of the patent license contracts were illegal, all the charges outside the scope of that determination were established, as plaintiff now seems to assume or take for granted. Alleged agreements in restraint of trade and commerce in gypsum products outside the scope of the determination, including, for example, those with respect to raising and maintaining the prices of plaster and miscellaneous gypsum products, eliminating jobbers of such products and fixing the resale prices of manufacturing dis-

tributors, were in controversy between the parties, as shown by the pleadings and offers of proof.

[fol. 271] The Court, in deciding the motion for summary judgment, in face of the denials in the answers, the failure of proof by plaintiff, the offers of proof to the contrary, and finally the findings of fact by the court upon the same record that the plaintiff had failed to prove the charges, did not hold that all those charges were established by plaintiff upon the present state of the record. The judgment upon the motion included those charges within the scope of the determination, which involved the price control of patented gypsum board manufactured and sold under the patent license contracts and the price bulletins. In fact, the Court, in disposing of the case upon the motion for summary judgment, necessarily must have concluded that those other charges were not established by the plaintiff, otherwise it would not have denied defendants the right to interpose their defense thereto. Furthermore, the Court, as shown, originally found that those charges had not been proved and it should not now upon the same record be asked to find that they were (Orig. FF. 57, 73, 80-84, 86, 94-97, 103-117, R. 4155, 4158-4160, 4162-4167; D. C. Op., R. 4065-72, 4079-4100).

Plaintiff's proposed decree not only provides for relief with respect to violations charged in the complaint outside the scope of the determination upon the motion, but violations not even charged in the complaint. It contains a blanket holding of a violation of Sections 1 and 2 of the Sherman Antitrust Act and an injunction with respect to the manufacture, sale and distribution of every product in the gypsum industry, covering numerous items, among them prices, selling, packaging, shipping, delivery and distribution, classification of purchasers, exchange of information and meetings, applying to all gypsum products, alleged violations charged in the complaint which were not proved, and alleged violations not even charged in the complaint. It also contains many punitive provisions not at all warranted by the circumstances of the case or within the intent of the Court in directing plaintiff to submit a final decree on the motion for summary judgment.

A final decree, as stated above, which grants relief within

the scope of the determination upon the motion as determined by the Court will afford plaintiff ample protection. A decree finding that the defendants, by adhering to the price limitation provisions of the patent license contracts, with knowledge of the adherence of the others, acted in concert to restrain trade and commerce and in violation of the Sherman Antitrust Act, and adjudging the price provisions of the patent license contracts unlawful, and directing the cancellation of the licenses, with an adequate injunction against future violations, is sufficient.

Without waiving our objection to the entry of any decree in favor of plaintiff, we attach hereto, as Exhibit A, a form of decree which, in our view, affords all the relief to which plaintiff may reasonably be held to be entitled under the [fols. 272-277] decision of this Court upon the motion for summary judgment.

(b) The Proposed Findings and Conclusions

Plaintiff's motion for summary judgment in its favor was filed pursuant to Rule 56 of the Federal Rules of Civil Procedure. Even prior to the 1948 amendment of the Federal Rules of Civil Procedure, it had been uniformly held by the courts that findings of fact and conclusions of law were unnecessary on the decision of motions under Rule 56. *Lindsey* v. *Leavy*, 149 F. (2d) 899, 902 (C. C. A. 9th, 1945); *Burman* v. *Lenkin Construction Co.*, 149 F. (2d) 827, 828 (App. D. C., 1945); *Huffman* v. *Norfolk & Western Ry.*, 71 F. Supp. 564, 565 (W. D. Va., 1947). And the 1948 amendments to the Rules added the following specific provision to Rule 52(a);

> "Findings of fact and conclusions of law are unnecessary on decisions of motions under Rules 12 or 56 or any other motion except as provided in Rule 41(b)".

Rule 41(b) has, of course, no application here. Accordingly, we submit that there is no occasion for the court to make any findings of fact and conclusions of law in this case.

If the Court concludes, nevertheless, to make findings of fact, then we submit that findings naming the defendants, defining the nature of the business in interstate commerce in the eastern area, describing the process of manufacture

of gypsum board, the history of the development of the patents and the licensing thereunder, the acceptance of the licenses by the defendants and the issuance of price bulletins thereunder by licensor and the adherence thereto by the defendant licensees with knowledge of the adherence of the others, the organization of Board Survey, Inc. and its activities in investigating performance under the licenses, together with the admissions relied upon by the plaintiff upon its motion for summary judgment to show knowledge among the defendants and concert of action, are ample to support any decree which may properly be entered herein. These constitute the very findings of fact which the Court made with respect to the main issue in the case when it dismissed the complaint (FF 1-21, 31, 60; R. 4132-44, 4148; 4155). For the convenience of the Court, in the event that it should conclude to make separate findings of fact and conclusions of law, we annex hereto, as Exhibit B, all the findings and conclusions which we believe to be proper in the light of the determination made by this Court upon the motion for summary judgment.

[fol. 278] III

The Specific Provisions of Plaintiff's Proposed Decree Are Punitive and Inappropriate

For the convenience of the Court, we shall here discuss, in order, each of the Sections of the plaintiff's proposed decree to which specific objection is made:

Sec. II

Section II of plaintiff's proposed decree, consisting of sub-paragraphs 1 to 5 covers definitions designed to carry out many of the objectionable provisions to which we take exception and should be read along with the objections pointed out below with respect to each separate section of the decree.

The term "gypsum products" is defined as meaning "those products used primarily in the building construction industry made from gypsum, including but not limited to" numerous specified products. Thus the plaintiff seeks to include products not included in the complaint, which was limited to gypsum board and plaster and miscellaneous

gypsum products, the latter being defined in the plaintiff's Bill of Particulars as "gypsum block, gypsum tile, and Keene's cement" (R. 158).

"Patents" and "patent applications" are defined so as to include any letters patent heretofore or hereafter issued and any applications or letters patent heretofore or hereafter made. As so defined, plaintiff's proposed decree would have the effect of providing for forfeiture of rights in all of defendant United States Gypsum Company's patents and patent applications—past, present and future.

Sec. III

Section III of plaintiff's proposed decree provides that defendants have contracted, combined and conspired to restrain trade and commerce in gypsum products and have monopolized, attempted to monopolize, combined and conspired to monopolize trade and commerce in gypsum board among the several states, in violation of Sections 1 and 2 of the Sherman Act.

As to Section 1 of the Sherman Act, this provision not only includes trade and commerce in all gypsum products among the several states but fails to set forth in what re- [fol. 279] spects defendants restrained trade and commerce within the meaning of Section 1 of the Act. The scope of the final determination upon the motion for summary judgment covered only concert of action to restrain trade and commerce in patented gypsum board in the eastern territory of the United States under the plurality of patent license contracts described in the complaint. In lieu of Section III as suggested by plaintiff, it should be provided that the defendants, by adhering to the minimum price provisions of the patent license contracts, with knowledge of the adherence of the others, acted in concert to restrain trade and commerce in the manufacture and sale of patented gypsum board among the several states in the eastern territory thereof, in violation of Section 1 of the Sherman Act.

As to Section 2 of the Sherman Act, this provision includes trade and commerce in all gypsum board among the several states and fails to set forth in what respect the defendants monopolized or attempted to monopolize within the meaning of Section 2 of the Act. Only the sale of patented

board in the eastern territory of the United States was involved, and the provision should be so limited. Although defendant USG had a monopoly under the patent laws, there was not, as we have heretofore shown, any monopoly or intent to monopolize within the meaning of Section 2 of the Sherman Act.

Sec. IV

Section IV of plaintiff's proposed decree provides that the provisions applicable to any defendant shall apply to such defendant and to each of its officers, directors, agents, etc. According to the definitions in Section II of the decree, the word "defendants" means all the corporate defendants and the individuals. We think the decree should apply to the defendant companies and their officers, directors, agents, servants and employees, but not to the individual defendants as such.

Upon the motion for summary judgment, concert of action was shown only with respect to the defendant companies and not the individuals. Furthermore, evidence in the record with respect to the individual defendants referred only to the negotiations for each separate license contract, the legality of which is assumed upon the present state of the record. Plaintiff, as shown, failed to establish a conspiracy to enter into the patent license contracts, nor is there evidence in the record of any deliberate intention of any of the individual defendants to violate the law.

It is inappropriate in a case like this to enjoin the individual defendants who are not parties to the patent license contracts but simply parties defendant in the case because they were officers of corporate defendants. We submit it is sufficient to enjoin the companies and their officers, directors, agents, servants and employees.

[fol. 280] Sec. V.

Section V of plaintiff's proposed decree provides that the defendants, in connection with the offering for sale, sale and distribution of gypsum products, be enjoined from entering into, continuing or carrying out any planned common course of action, undertaking or agreement to do or perform any of the things set forth in the numbered sub-paragraphs 1 to 10 thereof.

In the first place, plaintiff did not establish upon its motion for summary judgment that there was any planned common course of action, undertaking or agreement in the sale and distribution of gypsum products, nor did the Court, in directing summary judgment, determine anything more than that there came a time when the defendants admittedly, with knowledge of the adherence of the others, adhered to the price limitation provisions of the patent license contracts and thereby acted in concert to restrain trade and commerce in patented gypsum board, under the newly announced doctrine of the Supreme Court. This section proceeds upon the theory (1) that defendants were parties to a "conspiracy extrinsic to the plurality of licenses" and (2) that it included all products in the gypsum industry, which on both grounds is beyond the scope of the determination on the motion for summary judgment. It is directly in conflict with the prior findings of the court upon the same record that there was no such "conspiracy extrinsic to the plurality of licenses" and that plaintiff failed to establish its charges that defendants so restrained trade and commerce in the manufacture and sale of gypsum products.

In the second place, the numbered sub-paragraphs 1 to 10 cover not only every porduct in the industry but every activity in the sale and distribution of gypsum products wholly outside anything determined on the motion for summary judgment. Plaintiff seeks thereby to enjoin defendants from entering into or carrying out any planned common course of action, undertaking or agreement (1) to fix or make uniform prices, terms and conditions of sale of gypsum products of any kind, (2) to fix or make uniform gypsum products of any type or variety or the methods of manufacturing, selling, packaging, shipping, delivering or distributing the same (3) to refrain from the manufacture, sale or distribution of gypsum products of any type or variety or the method of manufacturing, selling, packaging, shipping, delivering or distributing the same (4) to refrain from selling or distributing gypsum products of any kind to any purchaser or class of purchasers, (5) to use or adhere to any basing point or delivered price system (6) to use, compile, circulate or exchange any information concerning transportation or delivery charges, (7) to use or adhere to

any basis for selection or classification of purchasers, (8) to use or adhere to any methods, means, conditions, practices, delivery points or areas, (9) to police, investigate or inquire [fol. 281] into prices, quantities, terms and conditions of sale or resale, and (10) to hold meetings or conferences for the purpose of aiding or assisting in maintaining uniform prices, terms and conditions of sale of gypsum products of any kind.

These provisions cover sales, production and distribution as to every possible activity with respect to every product in the industry, whether or not it is the subject matter of any charge in the complaint, is supported by any substantial evidence, or is within the scope of the final determination on the motion for summary judgment. They are also objectionable in that they assume the determination of every issue of fact in the case against the defendants notwithstanding the denials in the answers, the offers of proof and the prior findings of this Court upon the same record that they were not established by any substantial evidence.

The extent to which plaintiff would go is illustrated by sub-paragraph 5 of this Section V, wherein it seeks to enjoin defendants from agreeing upon or adhering to any system of quoting or selling gypsum products at prices calculated pursuant to or in accordance with a basing-point delivered price system or any other plan or system which results in identical price quotations or prices for gypsum products or which prevents purchasers from finding any advantage in price in dealing with one or more of the defendants against any other defendant. In short, the Government in this proposal presents the issue in the *Cement* case which took years to litigate and seeks a basing-point injunction in the gypsum industry, upon an issue not in the case, with no evidence to support it, and wholly outside the scope of the determination made upon the motion for summary judgment. Furthermore, the evidence of plaintiff on the charge that the defendants conspired to fix the prices of gypsum products and otherwise restrain trade in the industry, does not support such a provision in the decree, as this Court found upon the same record at the close of plaintiff's case. In view of the controversy with respect to the whole issue of any agreement or understanding to fix prices or in any other manner control or regulate the sale or distribution of gypsum prod-

ucts, the denials in the answers, the offers of proof, the failure of plaintiff's proof, and finally the findings of this Court that no such agreement or understanding existed, the provision is without any support in the present state of the record upon the motion for summary judgment.

The provisions of said Section V, sub-paragraphs 1-10 thereof, do not aim to protect the public interest with respect to the holding of this Court, that the defendants had acted in concert to restrain trade and commerce under the plurality of patent licenses, despite the assumed legality of each separate patent license contract, but on the contrary seek to enjoin the defendants against every imaginable wrong which might be committed under the Sherman Act and place the industry under a wholly unworkable decree. [fol. 282] The public interest will be protected in this case by canceling the patent license contracts and enjoining the defendant companies from exercising or adhering to any price limitation therein or in the bulletins issued under them, or from entering into or maintaining any plurality of patent license contracts with price limitation in the gypsum board industry to fix, maintain or stabilize prices on patented gypsum board or the terms and conditions of sale thereof.

Sec. VI

Section VI of plaintiff's proposed decree provides (1) that defendant USG be ordered to grant a non-exclusive license under some or all patents and applications now or hereafter owned or controlled by it relating to gypsum products, (2) that it be enjoined from disposing of any of its patents or patent applications unless the assignee agrees to observe the requirements of Sections VI and XI of the decree, (3) that it be enjoined from including any restriction or condition in any license except that the license may be non-transferable; a reasonable royalty may be charged but not measured by patent-free products; provision may be made for cancelation for failure to pay royalties: license must provide for cancelation by licensee on 30 days' notice; license must provide for benefit of any more favorable terms granted other licensees; and no provision may be made for inspection of books and records by USG, (4) that applicants may apply to the Court for determination of royalties and

USG shall have the burden of establishing the reasonableness of royalties requested by it, (5) that the Court may fix an interim royalty pending final determination and royalty rates finally determined shall become retroactive to date of application, and (6) that nothing in any such license shall prevent plaintiff or applicant from attacking validity or scope of patents.

The Government originally founded its charges upon an agreement or understanding among the defendants to raise and fix at arbitrary and non-competitive levels the prices of gypsum board and plaster and other miscellaneous gypsum products, carried out in part under the guise of numerous license agreements merely to give color of legality to the combination, which plaintiff wholly failed to prove as shown by the prior findings of this Court. The motion for summary judgment was decided upon the new theory that adherence by the defendants, in an entire industry, to the minimum price provisions of the patent license contracts, with knowledge of the adherence of the others, violates the Sherman Act. There is even a serious question if any such charge was made in the 127-page complaint filed by the Government where it spelled out in the greatest detail the charges made against the defendants. What is more important, there is no evidence in the case of any deliberate intent of the defendants to violate the Sherman Act, but on the contrary the record shows that they believed, and were [fol. 283] so advised by their counsel, that they had a right to enter into the patent license contracts and adhere to the price provisions therein. The *General Electric* case was so construed by the courts and the bar for more than twenty years until the decisions of the Supreme Court in this and the *Line Material* case repudiating or limiting the plainly declared doctrine of that case.

If the Supreme Court held that a mere plurality of such licenses industry-wide violated the Act, then plaintiff, upon its theory, is entitled to a decree consistent with the theory upon which the motion was made and granted, but it is not entitled to any punitive provisions, such as the provisions found in proposed Section VI. There is no foundation in this case for compulsory licensing

to all applicants under all patents and patent applications now or hereafter owned by USG relating to gypsum products, as provided in sub-paragraph 1 of this Section, nor for the provisions of sub-paragraphs 2 and 3 fastening a restriction to the sale of the patents to perpetuate an unwarranted control and to prevent USG from making any license with any conditions except those outlined therein, which provisions would strip the company of its property rights in all of its patents. These punitive provisions are not only unnecessary but they are unwarranted in a case like this. The cancellation of the presently existing license contracts, as suggested in our form of decree. Exhibit A, will satisfy the public interest and should satisfy the Attorney General, who represents that interest.

The construction of sub-paragraph 6 of this Section is doubtful, but if the Government means that a licensee may question the validity or scope of the patents covered by his license, we take exception to the suggestion, since it has no place in the decree in a case like this.

Defendant licensees relied upon the doctrine of the *General Electric* case, the same as the defendant licensor, and by the holding on the motion for summary judgment should not be deprived of their rights to manufacture and sell under the patents of USG included in their present patent license contracts. Their rights should be recognized in the decree by giving the licensees the right to take a non-exclusive license to make, use and sell patented gypsum plasterboard, lath and wallboard embodying the inventions of the same patents under which they are now licensed, at reasonable royalties to be agreed upon between the parties.

Sec. VII

Section VII of plaintiff's proposed decree provides for the cancellation of all patent license agreements, contracts, assignments and other arrangements relating to board, metalized board and perforated lath which have ever been entered into between USG and the other defendant companies and an injunction in equally broad terms. This is about the only provision of the proposed decree which [fol. 284] recognizes that the scope of the determination

upon the motion for summary judgment is the illegality of the plurality of patent license contracts, but at the same time it goes wholly outside the scope of the determination by seeking the cancellation of every contract, assignment and arrangement relating to patented board. No such provision is warranted within the scope of the final determination made in the case. If a decree is to be entered, a proper provision would be to declare the minimum price provisions of the patent license contracts illegal, cancel each of the contracts, and enjoin further performance thereunder.

Sec. VIII

Section VIII of plaintiff's proposed decree provides that the defendants shall be enjoined from conditioning the sale of any gypsum product upon the procurement by the purchaser of any other gypsum product or other products whatsoever from the defendants or from any other designated source. This provision is not only outside the scope of the determination upon the motion for summary judgment but is outside of any charge made in the complaint, nor is it warranted by any evidence in the case.

Sec. IX

Section IX of plaintiff's proposed decree provides that the defendants shall sell gypsum board to any other manufacturer of gypsum products at non-discriminatory prices, terms and conditions of sale, provided the board is available and the purchaser has proper credit rating, unless security or cash is furnished. This provision is not only outside the scope of the determination made upon the motion for summary judgment, but it is not covered by any charge made in the complaint or supported by any evidence in the case.

The evidence is clear that no manufacturer was ever denied the right to buy patented gypsum board. The Cardiff testimony was received, by the express ruling of the Court, alone upon the issue of whether the prices of plaster had been fixed by the defendants, an issue which this Court held was not established by plaintiff. Furthermore, the evidence in this respect was very unsatisfactory, as the Court will recall, and even if it had not been limited

to the issue above mentioned, it is insufficient to support such a decree upon the present state of the record, in face of the denials in the answers, the offers of proof and the prior findings of the court. With the cancellation of the license contracts and termination of all price limitation provisions, including requirement of consent to sell, there is no reason for such a provision as this.

The veiled meaning of the provision, whether intended or not, is disclosed by such phrases as: "gypsum board," [fol. 285] that is, patented or unpatented; "is then being or about to be offered or shall have been offered," that is, offered at any time to anybody; "available for such purposes," that is, merely for sale if offered to another, although plaintiff would have us believe it meant if the board was available; "shall not be required to sell unless it is offering, about to offer or has offered the type," that is, not to manufacturers but ever offered at any time to anybody in the United States: "sale is not required to be made without cash payment or security to any manufacturer * * * not having credit rating," that is, cash is not required but defendants must determine the credit of the customer at their peril; and "so long as the sale price at any one time is uniform to all buyers," that is, no matter what kind of trade, competition or other conditions there are which naturally would affect the price.

Sec. X

Section X of plaintiff's proposed decree, by sub-paragraphs 1 and 2 thereof, provides that the defendants be enjoined from acquiring, purchasing, acquiring and holding, or acquiring and controlling at any time the business or assets or capital stock or bonds of any other defendant, or the business or assets or any measure of control over the business of any competing company so engaged without the approval of the court. These provisions are not only outside the scope of the determination made upon the motion for summary judgment, but are outside any charge made in the complaint, any issue between the parties or any evidence in the record. There is not the slightest foundation for claiming in this case that purchases by the defendants of any gypsum properties were in any way improper or

made as the result of an agreement or understanding among the defendants, directly or indirectly, that they would be acquired.

Sub-paragraph 3 of this Section X provides that each of the individual defendants, while officers or directors of any of the defendant companies, be enjoined from acquiring, purchasing, acquiring and holding, or acquiring and controlling any measure of control through ownership of stock or bonds or otherwise of any competing company with the corporation of which he is an official unless the acquisition is approved by the Court. Here again is a provision which not only goes outside the scope of the determination made upon the motion for summary judgment but outside any charge made in the complaint, any issue between the parties or any evidence in the record. There is not the slightest foundation for any such provision in the decree.

Sec. XI

Section XI of plaintiff's proposed decree provides for (1) access by the Attorney General to all books and records of defendants relating to matters in the decree, and (2) [fols. 286-287] power by the Attorney General to interview officers and employees regarding any such matters. Such a provision is not necessary in a case like this for the protection of any public interest and, like practically all other provisions of the decree, goes outside the scope of the determination upon the motion for summary judgment, since it covers records and inquiries with respect to issues of fact not established by plaintiff, not included in the complaint, and in conflict with prior findings of the Court. The simple cancellation of the contracts is all that is necessary to support any proper decree in the case.

Sec. XII

Section XII of plaintiff's proposed decree seeks to tax all costs of the proceeding against defendants. The case was tried by the Government upon the theory that defendants had entered into a plan or agreement to fix prices and otherwise restrain trade and commerce in gypsum products in part by use of license contracts to give color of legality to the combination. In this plaintiff failed to establish its case.

It now relies upon a new theory advanced by the Supreme Court, which was not foreseen either by the defendants and their counsel or the Government and its counsel. In fact, there is a serious question if it is ever alleged in the complaint. Upon the theory which plaintiff now adopts upon its motion for summary judgment, no evidence was necessary to sustain its motion except those facts which the defendants never even denied. Furthermore, there was no actual or deliberate intent on the part of any of the defendants to violate the law, as shown under "Sec. VI" hereinabove.

We submit that it is unjust under these circumstances to tax all the costs against the defendants. The Government should bear a part of the taxable costs of the case.

Sec. XIII

Section XIII of plaintiff's proposed decree provides for the retention by the Court of jurisdiction for the entry of such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of the decree, and (2) for the enforcement of compliance therewith and the punishment of violations thereof. The form of this reservation is inappropriate in a case like this.

We suggest that jurisdiction be retained for the purpose of enabling any of the parties to the decree to apply to the Court at any time for such further orders and directions as may be necessary or appropriate for the construction or carrying out of the decree, for the modification or termination of any of the provisions thereof, and for the enforcement thereof.

[fol. 288] Respectfully submitted, Albert R. Connelly, Cranston Spray, Hugh Lynch, Attorneys for United States Gypsum Company, Sewell L. Avery and Oliver M. Knode.

March 4, 1949.

Exhibit A

[fol. 289] In the United States District Court for the District of Columbia

Civil Action No. 8017

United States of America, Plaintiff,

v.

United States Gypsum Company; National Gypsum Company; Certain-teed Products Corporation; The Celotex Corporation; Ebsary Gypsum Company, Inc.; Newark Plaster Company; Samuel M. Gloyd, Doing Business Under the Name of Texas Cement Plaster Company; Sewell L. Avery; Oliver M. Knode; Melvin H. Baker; Henry J. Hartley; and Frederick Tomkins, Defendants

Decree

This cause came on for trial before this Court on November 15, 1943 and, at the end of the plaintiff's case, upon motion of the defendants pursuant to Rule 41(b) of the Federal Rules of Civil Procedure, judgment was entered dismissing the complaint on its merits on August 5, 1946. That judgment was reversed by the Supreme Court of the United States, and the case was remanded to this Court for further proceedings in conformity with the opinion of the Supreme Court (333 U. S. 683).

This cause having now come on to be further heard upon the motion of plaintiff, pursuant to Rule 56 of the Federal Rules of Civil Procedure, for summary judgment in its favor upon the pleadings and all of the proceedings heretofore had herein or, in the alternative, for such further proceedings as the Court might order; and the Court having considered the pleadings and all the proceedings heretofore had herein including, but not limited to, all exhibits and testimony of witnesses, admissions by counsel for the defendants, and the offers of proof submitted by certain of the defendants, having read and considered the briefs submitted by the respective parties, having heard and considered oral argument of counsel for the respective parties; and the Court having found that under the aforesaid

opinion of the Supreme Court, as construed by it, the defendants, by adhering to the minimum price provisions of the patent license agreements, in an entire industry, with knowledge of the adherence thereto of the others, thereby [fol. 290] acted in concert to restrain trade and commerce among the several states in the eastern territory of the United States and that there is no genuine issue as to any fact material to that finding;

Now, therefore, upon motion of plaintiff, it is hereby

Ordered, adjudged and decreed that:

Article I

This Court has jurisdiction of the subject matter hereof and of the parties hereto. The complaint states a cause of action against defendants under the Act of Congress of July 2, 1890, entitled "An Act To Protect Trade and Commerce Against Unlawful Restraints and Monopolies", commonly known as the Sherman Antitrust Act, and acts amendatory thereof and supplemental thereto.

Article II

As used in this decree:

1. "Defendant companies" shall mean all of the corporate defendants and Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company.

2. The "Patents" shall mean United States Letters Patent and applications for United States Letters Patent owned by defendant United States Gypsum Company which are described in the Patent Licenses, as hereinafter defined, and continuations in whole or in part, renewals, reissues, divisions, and extensions thereof.

3. "Gypsum board" shall mean plaster board or lath (including perforated and metallized lath) and wallboard (including metallized wallboard) made from gypsum and embodying any of the inventions or improvements set forth and claimed in any of the Patents.

4. "Minimum price provisions" shall mean and include: (a) any provision contained in a patent license

agreement constituting an agreement, reservation of right, or license limitation with respect to the price or other terms or conditions of sale of gypsum board; and (b) any price bulletin or other notice or communication issued pursuant to any such provision.

5. "Patent Licenses" shall mean the patent license agreements which were in effect between defendant United States Gypsum Company and each of the other defendant companies at the time the complaint herein was filed and described in said complaint, namely, the following:

Agreement dated October 15, 1929, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee;

Agreement dated October 17, 1929, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee;

[fol. 291] Agreement dated October 18, 1929, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee;

Agreement dated November 5, 1929, between United States Gypsum Company, as licensor, and Universal Gypsum and Lime Company (National Gypsum Company, as Assignee), as licensee;

Agreement dated November 25, 1929, between United States Gypsum Company, as licensor, and American Gypsum Company (The Celotex Corporation, as Assignee), as licensee;

Agreement dated April 23, 1930, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Co., as Assignee), as licensee;

Agreement dated February 10, 1937, between United States Gypsum Company, as licensor, and Texas Cement Plaster Company, as licensee;

Agreement dated October 5, 1934, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee (Metallized board);

Agreement dated October 12, 1934, between United States Gypsum Company, as licensor, and Kelley

Plasterboard Company (Newark Plaster Company, as Assignee), as licensee (Metallized board);

Agreement dated November 2, 1934, between United States Gypsum Company as licensor, and Certain-teed Products Corporation, as licensee (Metallized board);

Agreement dated December 4, 1934, between United States Gypsum Company, as licensor, and American Gypsum Company (The Celotex Corporation, as Assignee), as licensee (Metallized board);

Agreement dated August 14, 1935, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Metallized board);

Agreement dated June 8, 1936, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee (Perforated lath);

Agreement dated September 16, 1938, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee (Perforated lath);

Agreement dated February 2, 1937, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Perforated lath);

Agreement dated September 16, 1938, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Perforated lath);

Agreement dated June 23, 1937, between United States Gypsum Company, as licensor, and Kelley [fol. 292] Plasterboard Company (Newark Plaster Company, as Assignee), as licensee (Perforated lath);

Agreement dated January 3, 1939, between United States Gypsum Company, as licensor, and Newark Plaster Company, as licensee (Perforated lath).

Article III

The defendant companies, by adhering to the minimum price provisions of the Patent Licenses, in an entire industry, with knowledge of the adherence thereto of the others,

have acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board, in violation of Section 1 of the Sherman Antitrust Act.

Article IV

1. The minimum price provisions of the Patent Licenses are hereby declared to be illegal.

2. Each of the Patent Licenses is hereby cancelled and terminated.

Article V

Each of the defendant companies and each of their respective officers, directors, agents, employees, representatives, subsidiaries, and any person acting or claiming to act under, through or for them or any of them are hereby enjoined and restrained from:

(1) the further performance or enforcement of any of the minimum price provisions of the Patent Licenses, including any price bulletin issued thereunder;

(2) entering into or performing any agreement or understanding among the defendants or any of them for the purpose or with the effect of continuing, reviving or reinstating any of the minimum price provisions of the Patent Licenses; and

(3) entering into or performing any agreement or understanding among the defendants or any of them in restraint of trade and commerce in gypsum board among the several states in the eastern territory of the United States by license agreements with minimum price provisions to fix, maintain or stabilize prices of gypsum board or the terms and conditions of sale thereof.

Article VI

In recognition of the fact that the defendant companies other than defendant United States Gypsum Company, in their manufacture and sale of gypsum board, have relied upon their respective Patent Licenses to use the patents [fols. 293-294] therein described, said defendant United States Gypsum Company shall grant to each of the other

defendant companies which shall apply therefor within sixty (60) days from the date of this decree, in lieu of any such Patent License held by it, an indivisible and non-exclusive license, retroactive to the date of this decree, to make, use and vend gypsum board under any of the unexpired patents described in such Patent License, upon royalties and other terms and conditions not less favorable to such other defendant company than those contained in such Patent License, but without minimum price provisions. The forms of license agreement which the Court has this day ordered filed herein are hereby approved; and the tender by defendant United States Gypsum Company to any such other defendant company of a license agreement containing the terms and conditions set forth in the applicable filed form or forms shall constitute compliance by defendant United States Gypsum Company with the provisions of this Article VI.

Article VII

This decree shall have no effect with respect to defendants' acts and operations without the United States, or to their acts and operations within the United States relating exclusively to acts without the United States; nor shall it have any effect with respect to operations or activities, wherever performed, which are authorized or permitted by the Act of Congress of April 10, 1918, commonly called the Webb-Pomerene Act, or by the Act of Congress of August 17, 1937, commonly called the Miller-Tydings Act, or by any present or future act of Congress or amendment thereto.

Article VIII

Jurisdiction of this cause is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation bound by any of the provisions hereof, to apply to the Court at any time for such further orders or directions as may be necessary or appropriate for the construction or carrying out of this decree, for the modification or termination of any of the provisions thereof and for the enforcement of compliance therewith.

Article IX

Judgment is entered against the defendants for % of the costs to be taxed in this proceeding.

March , 1949.

——— ———.

[fol. 295] [File endorsement omitted]

IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

[Title omitted]

OBJECTIONS OF DEFENDANT, CERTAIN-TEED PRODUCTS CORPORATION, TO PLAINTIFF'S PROPOSED FINDINGS OF FACT AND CONCLUSIONS OF LAW—Filed March 3, 1949

Defendant Certain-teed Products Corporation hereby concurs in and adopts the objections filed with this Court by Defendant United States Gypsum Company to Plaintiff's Proposed Findings of Fact and Conclusions of Law. This Defendant further concurs in and adopts the argument made and the cases cited in support of such Objections in Memorandum of Defendant United States Gypsum Com-
[fol. 296] pany in Opposition to Plaintiff's Proposed Findings of Fact, Conclusions of Law, and Decree.

March 4, 1949.

Respectfully submitted, Herbert W. Hirsh, Norman A. Miller, Charlton Ogburn, Investment Building, Washington 5, D. C., Attorneys for Defendant, Certain-teed Products Corporation.

CERTIFICATE OF SERVICE (Omitted in Printing)

[fol. 297] [File endorsement omitted]

IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

[Title omitted]

OBJECTIONS OF DEFENDANT, CERTAIN-TEED PRODUCTS CORPORATION, IN OPPOSITION TO PLAINTIFF'S PROPOSED DECREE—Filed March 3, 1949

Defendant Certain-teed Products Corporation hereby concurs in and adopts the Objections filed with this Court by Defendant United States Gypsum Company to Sections II to V, both inclusive, and VIII to XIII, both inclusive, of Plaintiff's Proposed Decree. This Defendant further concurs in and adopts the argument made and the cases cited [fol. 298] in support of such Objections in the Memorandum of Defendant United States Gypsum Company in Opposition to Plaintiff's Proposed Findings of Fact, Conclusions of Law and Decree.

With regard to Sections VI and VII of Plaintiff's Proposed Decree, Defendant Certain-teed Products Corporation offers no objections thereto, but submits its interests to this Court for an equitable and just determination.

March 3, 1949.

Respectfully submitted, Herbert W. Hirsh, Norman A. Miller, Charlton Ogburn, Investment Bldg., Washington 5, D. C., Attorneys for Defendant, Certain-teed Products Corporation.

CERTIFICATE OF SERVICE (Omitted in Printing)

[fol. 299] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

[Title omitted]

MEMORANDUM SUBMITTED ON BEHALF OF DEFENDANTS, NEWARK PLASTER COMPANY AND FREDERICK TOMKINS, ON THE FORM OF THE FINDINGS, CONCLUSIONS AND DECREE TO BE ENTERED IN THIS ACTION—Filed March 4, 1949

With the exception hereinafter set forth, these defendants join with defendant United States Gypsum Company in opposing all the provisions of the decree submitted by plaintiff upon the motion for summary judgment herein.

Defendant United States Gypsum Company has submitted to these defendants a form of decree, marked Exhibit A, annexed to the memorandum to be submitted by it in opposition to the decree proposed by the plaintiff, which provides in Article VI thereof for the licensing by defendant United States Gypsum Company of the other defendants herein and the approval in the decree of forms of license agreements. The forms of these license agreements which defendant United States Gypsum Company desires [fol. 300] approved by the Court in the decree have not as yet been submitted to these defendants and these defendants, therefore, cannot approve of Article VI of the decree proposed by defendant United States Gypsum Company.

If these defendants do not agree with defendant United States Gypsum Company on the form of the license agreements prior to the date of the oral argument on the form of the decree herein, then these defendants ask that the provisions of Article VI of the plaintiff's decree be substituted for Article VI of the decree proposed by defendant United States Gypsum Company.

Except for the objection, as aforesaid, to Article VI of the decree proposed by defendant United States Gypsum Company, these defendants join with defendant United States Gypsum Company in proposing the other articles of Exhibit A as part of the decree which gives plaintiff the relief to which it may reasonably be held entitled under the decision of this Court.

If the Court should conclude to make separate findings

of fact and conclusions of law, then these defendants join with defendant United States Gypsum Company in requesting that the Court make the findings of fact and conclusions of law set forth in Exhibit B annexed to the memorandum to be submitted on behalf of defendant United States Gyp-
[fol. 301] sum Company in opposition to plaintiff's proposed findings of fact and conclusions of law.

In any event, these defendants respectfully ask that they be given an opportunity to be heard orally by the Court on the form of the decree to be entered herein.

Respectfully submitted, (S.) Benjamin P. DeWitt, Attorney for Defendants Newark Plaster Company and Frederick Tomkins.

[fol. 302] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

[Title omitted]

MEMORANDUM OF DEFENDANTS, NATIONAL GYPSUM COMPANY AND MELVIN H. BAKER, IN OPPOSITION TO PLAINTIFF'S PROPOSED FINDINGS, CONCLUSIONS AND DECREE—Filed March 4, 1949

This memorandum is submitted by the defendants National Gypsum Company and Melvin H. Baker in opposition to the proposed findings of fact, conclusions of law and decree submitted by plaintiff upon the motion for summary judgment herein. Defendants object generally to such proposed findings, conclusions and decree upon the ground that they go far beyond the scope of the issues determined by this Court upon plaintiff's motion for summary judgment. In addition, such proposed findings, conclusions and decree are specifically objectionable upon grounds hereinafter stated.

[fol. 303]

I

Objections to Proposed Findings and Conclusions

Counsel for defendants National Gypsum Company and Melvin H. Baker have read the objections of defendant United States Gypsum Company to the proposed findings

of fact and conclusions of law and concur in the views expressed therein.

In addition to the objections made by defendant United States Gypsum Company to the proposed conclusions of law, defendants National Gypsum Company and Melvin H. Baker make the following objections:

1. Proposed conclusion #5 erroneously and argumentatively re-defines the *General Electric Case.* Such collateral attack attenuating the principle of the *General Electric Case* should not be permitted. Further emasculation of the principle established by the *General Electric Case,* if it is to occur, should come only at the hands of a Court where the question is in issue. It is outside the scope of the issue before this Court.

2. *By innuendo,* proposed conclusion #8 asserts issues and facts not necessary to this decision. The paragraph [fol. 304] *assumes* all the recited allegations obtain in this case even though the findings and evidence do not support such an assumption.

No finding, nor any substantial evidence, support the assumptions: That "The industry is completely regimented; that "a class of distributors (was squeezed out"; that "resale prices of another class of distributors (were) fixed," and that "the prices of unpatented products (were) stabilized." See also the objections to the comparable proposed findings of fact set forth in the memorandum of defendant United States Gypsum Company.

3. In proposed conclusion #9, as in proposed conclusion #5, plaintiff attempts to secure a needless and fallacious interpretation of the Supreme Court's decision in the *Gypsum Case* and *Line Material Case.*

4. Proposed conclusion #10 is objectionable for the same reasons as proposed conclusions #5 and #9. Plaintiff seeks an unnecessary and controversial extension of the holding in the *Line Material Case.* This proposed conclusion is not an issue here. It springs from a mistaken interpretation of the *Gypsum* and *Line Material* decisions. Certainly the Supreme Court did not intimate in the *Gypsum Case* that the purchase of the starch patents from Universal constituted a *per se violation* of Antitrust statutes.

5. Proposed conclusion 11 is an inaccurate and insinu-
[fol. 305] ating attempt to attack the acknowledged *bona fides* of defendants in entering into license agreements. These agreements were not entered *"for the purpose of organizing the industry and stabilizing prices."* By means of such contentious conclusions plaintiff is endeavoring to secure the effect of adjudications on matters not in issue for the purposes of this judgment and decree.

6. Proposed conclusion #12 is objectionable for the same reasons stated in the objections to proposed conclusion #8. The assumptions of fact made in proposed paragraphs #12(a), (b), (e) and (f) are neither supported by the findings nor by subtsantial evidence. Proposed paragraph #12(c) should be eliminated as being outside the issue determined by this Court on the motion for summary judgment.

7. Proposed conclusion #13 should be amended to mirror the changes required in proposed conclusion #12. Furthermore, #13(d) is an inference objectionable as contrary to the findings of fact and without any substantial foundation in the body of evidence.

8. Proposed conclusion #16 is an unjustifiable attempt to expand the scope of the judgment rendered by this Court upon plaintiff's motion. In arguing the motion, which was based solely on the issue of price control through the
[fol. 306] license agreements, Mr. Steffen said:

> "This morning I clearly said, or tried to say, that for purposes of this action, this motion, we can limit our case to price control. *The facts are admitted on that point alone."* (Italics ours) (R. 7916).

The judgment of this Court (Jackson, J.) was restricted to that point:

> "It is my opinion that if everything should be testified to, which is in proffer of proof, it would not bring any change in the decision of the Supreme Court *on the fundamental question involved."* (Italics ours) (R. 7935).

The fundamental issue was, of course, whether defendants associated themselves in an industry-wide plan to organ-

ize the industry under patent licenses and stabilize prices by entering into patent agreements containing price-fixing provisions. Plaintiff's motion was decided upon that issue.

Now plaintiff is seeking to stretch that adjudication to cover the unsupported charge that defendants have suppressed non-price competition at the service and quality levels. Such unsanctioned extension should not be countenanced by this Court.

9. Proposed conclusion #17 is an objectionable and argumentive inference without a basis in fact or evidence and is outside the scope of the issue before this Court. Defendants' lack of intent to violate the Federal Antitrust Laws does not indicate any proclivity on the part of defendants to violate the law nor indicate any reasonable likelihood that illegal restraints and monopolization will be continued [fol. 307] or resumed. The disputatious proposed conclusion is both improper and erroneous.

II

The nature of this case and the applicable principles of law

The complaint charged that defendants violated Sections 1 and 2 of the Sherman Act by conspiring to fix prices of patented gypsum board through patent license agreements under which patentee United States Gypsum Company granted to other gypsum manufacturers non-discriminatory licenses to manufacture and sell patented gypsum board, reserving to itself the right to determine and fix the price of all patented gypsum board sold.

The evidence shows that the licensees, convinced that such an arrangement was not violative of any State or Federal Law nor contrary to any public policy, openly and in good faith entered into patent license agreements offered generally to the gypsum industry. The error of the defendants "stemmed logically from (their) understanding of *United States* v. *General Electric*, 276 U.S. 476". Under such circumstances, an unduly stringent and punitive decree is not required to prevent future violations by these defendants, nor is such a decree necessary to restore competitive conditions to the gypsum industry.

[fol. 308] The decree should be remedial and not punitive in nature; it should not be more drastic than the facts of

the case and the law demand; and it should enjoin only the unlawful practices and take such reasonable measures as would preclude their revival. See *United States* v. *E. I. DuPont deNemours & Co.*, 188 Fed. 127, 153; *Swift* v. *United States*, 196 U. S. 375, 396; *Local 167* v. *United States*, 291 U. S. 293, 299; *Ethyl Gasoline Corporation* v. *United States*, 309 U. S. 436, 461; and *United States* v. *National Lead Co.*, 332 U. S. 319.

The proposed decree is apparently based on the theory that plaintiff is entitled to a decree punishing defendants for every conceivable infraction of the Federal Antitrust Laws, even though such infractions were not alleged nor proved nor in issue in this case.

In granting plaintiff's motion, this Court, per Garrett, J. said:

> "Hence, I think the summary judgment should be granted, but I take the precaution to say that the decree following the summary judgment, if it comes or when it does come, must be examined with great care because *it should not include matters which were not in issue before the Supreme Court.*" (Italics ours) (R. 7935).

Amplifying this statement, Judge Stephens said:

> "It occurs to me, Mr. Steffen, in view of the victory you have now so fully won, that you might be able to content yourself with a decree which reflects the views of my colleagues on the subject of conspiracy to execute and take patent licenses for the purpose of organizing the industry and stabilizing prices, and on the subject of monopoly, and that you might not need to [fol. 309] trouble yourselves or the Court with the difficulties about jobbers and high prices and arbitrary prices of the patented board or with respect to unpatented materials or with respect to manufacturing distributors." (R. 7938).

III

Objections to Proposed Decree

Defendants National Gypsum Company and Melvin H. Baker make the following objections:

1. *Proposed Article III*—This proposed Article should be limited to the issue determined by this Court. Therefore, the term "said defendants" should be omitted and the term "corporate defendants" inserted in lieu thereof. The term "gypsum products" should be omitted and the term "gypsum board" inserted in lieu thereof.

2. *Proposed Article IV*—The inclusion of "attorneys" is improper and unnecessary. A decree applicable only to the corporate defendants, its officers, directors, employees and agents will be sufficient to protect the public interest.

3. *Proposed Article V*—Amendments should be made to the preamble: *First*, the injunctive provisions should apply only to the corporate defendants. The proof of the price-[fol. 310] fixing combination was limited to the corporate defendants alone.

Second, the injunctive provisions should only apply to the offering for sale, sale, and distribution of gypsum board. It was only as to gypsum board that the price-fixing combination was found to exist. Wherever the term "gypsum products" appears in this proposed Article, the term "gypsum board" should be inserted in lieu thereof.

Third, the injunctive provisions should only apply where the planned common course of action, etc. restrains trade. After the words "restrained from" the words "*restraining trade in gypsum board among the several states of the United States by*" should be inserted.

Fourth, the phrase "others not parties hereto" will unnecessarily hamper and harass legitimate business practices. The phrase is too broad and ambiguous, especially when read as a preface to the several proposed paragraphs of proposed Article V. In lieu of that uncertain phrase, "*other manufacturers of gypsum board*" should be inserted.

Proposed paragraph (1)—The inclusion of the phrase "or resold" is an unwarranted restriction of the rights extended by the Miller-Tydings Act. The decree should

provide that nothing therein shall be deemed to diminish the rights of defendants to conduct operations or activities [fol. 311] exempted from the operation of the Federal Antitrust Laws by the Miller-Tydings Act, the Webb-Pomerene Act or by any other Act.

Proposed paragraphs (2) and (3)—These proposed paragraphs should be rewritten. They unduly and unnecessarily circumscribe ordinary and legitimate business transactions. For instance, in a license agreement complying with the provisions of proposed Article VI, licensor and licensee *agree* that licensee may or will manufacture and sell a certain type or variety of gypsum product. As a direct result of the license agreement, licensor and licensee will, to a considerable degree, necessarily manufacture and sell a more or less uniform product, a product for which the consuming public has evidenced a preference. Such conduct, sanctioned under proposed Article VI, should not violate proposed Article V. In fact, the very purpose of the compulsory licensing provisions is to continue to permit a gypsum manufacturer to manufacture and sell the same improved product which his competitor-licensor is selling.

Standardization of gypsum products occurs primarily not from any agreement or understanding among the gypsum manufacturers, but rather comes about as a result of the demonstrated preferences of the buying public for a particular type or variety of product. An alert, competitive gypsum manufacturer must minister to his customers' desires. Naturally enough, he strives to provide his customers with the desired type or variety of product. Such [fol. 312] competitive selling should not be proscribed by this decree.

In addition, in each of these proposed paragraphs it is not clear whether the limitation clause "for the purpose of etc." applies to the whole proposed paragraph or only to that part following the semi-colon. It should limit the entire proposed paragraph.

Proposed paragraph (5)—This proposed paragraph should be wholly deleted as unnecessary. The instant situation is clearly different from that in the *Cement Case*. In the *Cement Case* a basing point delivered price system was the central cog in a *willful* scheme employed by the cement

manufacturers to fix the prices of *unpatented* goods in violation of the Federal Antitrust Laws. In this case, the use of basing points was merely *incidental* to the exercise of the hitherto unquestioned and unrestricted rights of a patentee to fix the price at which his licensee might sell the *patented* product. An injunction against basing point pricing, justified in the *Cement Case*, is inappropriate here. Moreover, proposed paragraph (1) is, by itself, sufficient to enjoin the evil of price-fixing.

Proposed paragraph (6)—Similarly, we object to this as unnecessary in view of proposed paragraph (1), and as inappropriate in that the use of rate books etc. was merely an *incidental* means of fixing the licensees' minimum [fol. 313] prices under the existing patent license agreements.

Proposed paragraphs (7) and (8)—These proposed paragraphs are unnecessary and improper for the same general reasons as applied to proposed paragraphs (5) and (6).

Proposed paragraph (9)—The term "or resale" should be deleted. The contentious term "uniform prices" should be defined to mean uniform *delivered* prices.

Furthermore, the decree should make clear that nothing therein shall be deemed to prevent any defendant from inquiring into his competitors' prices to enable him to meet a competing price so long as such inquiry does not have the purpose or effect of restraining competition. Such competitive selling is the essence of competition and should be encouraged.

4. *Proposed Articles VI and VII*—The licensee defendants have in good faith entered into the existing patent license agreements and have equipped their plants for the manufacture of the patented gypsum products in reliance on the contractual rights secured under such agreements. Insofar as any such rights do not collide with the Sherman Act, licensee defendants should not be deprived of such rights. A divestiture of such rights by the final decree would in these circumstances, be unwise, uneconomic and unjust.

[fol. 314] Therefore, if feasible, the present agreements should continue in effect with only the offending provisions deleted. If this is not practicable and the agreements are

to be cancelled *in toto*, the licensees should be assured against any diminution of those rights. Defendants National Gypsum Company and Melvin H. Baker are in accord with the principal provisions of the proposed Article VI as being reasonably designed to preserve such rights to defendant licensees. However, in the event of total cancellation, in order to insure retention of all the non-offending rights and privileges secured by licensees under the existing agreements, the decree should provide that each such license contain all features of the existing licenses which do not violate the Sherman Act.

Moreover, if total cancellation of the existing license agreements is decreed, the decree should include a schedule of all the agreements that are intended to be cancelled thereby.

5. *Proposed Article VIII*—This proposed Article should be deleted as unnecessary and not in issue before this Court or the Supreme Court. No such violation was found or alleged.

6. *Proposed Article IX*—This proposed Article should be deleted as unnecessary, not in issue before this Court, and contrary to the findings of fact. Moreover, the terms "available" and "uniform" demand definition.

[fol. 315] 7. *Proposed Article X*—This proposed Article should be entirely deleted as being unnecessary and outside the scope of the issue before this Court. It is apparently based on the assumption that defendants have been found to have violated Section 7 of the Clayton Act. No such violation was ever alleged. There is no evidence tending to support such an allegation. Neither this Court nor the Supreme Court found such a violation.

The proposed Article overreaches the provisions of the Clayton Act Section 7. Acquisitions of "the business or assets . . . or bonds" or of "any measure of control . . . by ownership . . . of bonds or otherwise" of any other defendant or competitor are enjoined by this proposal. The Clayton Act Section 7 applies only to acquisitions of "stock or other share capital" where injury to commerce results. There is no need for such unwarranted and unnecessary extension of the statutory provisions in these circumstances where no Section 7 violation has been alleged or proved.

Moreover, the term "any measure of control" requires definition.

The provisions herein enjoining acquisitions of assets or bonds are inconsistent with the mandate of proposed Article IX which requires the cash or credit sale of certain assets "to any other manufacturer of gypsum products."

[fol. 316] When a violation of Section 7 of the Clayton Act is alleged, it rests with the plaintiff to show that a substantial lessening of competition or a restraint of commerce or a monopoly will be effected as a result of defendant's conduct. Here, though no such violation has ever been in issue, plaintiff, by the injunction in proposed paragraph (1), seeks to obviate the requirement for such proof as to certain acquisitions by defendants. Neither the facts nor the Clayton Act warrant such an injunction. Acquisitions should be permitted so long as no injury to commerce result therefrom.

Proposed paragraphs (2) and (3) also strive to whittle away the requirements of proof. Plaintiff attempts, in effect, to shift to defendants the burden of proof on the question of Section 7 violation. In the absence of any allegation or proof of violation and in the absence of a demonstrated propensity or willful intent to violate the Antitrust Laws, such a shifting of the burden of proof is both unfair and indefensible.

8. *Proposed Article XI*—This proposed Article is wholly unnecessary for the protection of the public interest and should be deleted from the decree. The power of the Attorney-General to subpoena records is by itself sufficient. The proposed Article also is inappropriately broad in that it covers records and inquiries with respect to issues of fact not established by plaintiff.

[fol. 317] In any event any right of access granted herein should be limited to the books, ledgers etc. of the corporate defendants. Moreover, this proposed Article should require that, before the Attorney-General is permitted access to the books, ledgers etc. of any corporate defendant, appropriate request and notice be made in writing to the principal office of such defendant and that the interview of employees, etc. be made "subject to the reasonable convenience of such defendant."

9. *Proposed Article XII*—The proposal to tax all costs in

this action to defendants is unjust in the circumstances of this case. Plaintiff has failed to sustain many of the charges originally asserted in this action. The decision of the Supreme Court reversing this Court made a broad departure from established precedent. Acting in good faith, defendants relied on well-established legal doctrine in entering the license agreements. This Court should therefore in its discretion equitably pro-rate the costs of this action among plaintiff and the several defendants.

Respectfully submitted, Elmer E. Finck, Finck & Huber, Attorneys for National Gypsum Company and Melvin H. Baker

---

[fol. 318] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

OBJECTIONS OF DEFENDANT, THE CELOTEX CORPORATION, IN OPPOSITION TO PLAINTIFF'S PROPOSED FINDINGS OF FACT, CONCLUSIONS OF LAW AND DECREE—Filed March 4, 1949

Defendant, The Celotex Corporation, hereby adopts the objections, arguments and authorities contained in the Memorandum of Defendant, United States Gypsum Company, in opposition to Plaintiff's Proposed Findings of Fact, Conclusions of Law and Decree, filed with this Court, except the objections, arguments and authorities contained in said Memorandum which pertain and apply to Sections VI and VII of Plaintiff's proposed Decree.

Defendant, The Celotex Corporation, offers no objections to Sections VI and VII of Plaintiff's proposed Decree but submits its interest in this regard to this Court for an equitable determination, and requests an opportunity to be heard orally by the Court.

March 4, 1949.

Respectfully submitted, Andrew J. Dallstream, Walter G. Moyle, Norman Waite, Ralph P. Wanlass, Attorneys for Defendant, The Celotex Corporation.

[fols. 319-320] [File endorsement omitted]

IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

[Title omitted]

MEMORANDUM OF THE DEFENDANT, SAMUEL M. GLOYD, DOING BUSINESS UNDER THE NAME OF TEXAS CEMENT PLASTER COMPANY, IN RESPONSE TO THE PROPOSED FINDINGS, CONCLUSIONS AND DECREE HERETOFORE SUBMITTED BY THE PLAINTIFF—Filed March 4, 1949.

The defendant, Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company, adopts the memorandum filed by the defendant, United States Gypsum Company, in opposition to the proposed findings, conclusions and decree of the plaintiff, which memorandum contains Exhibit A, being a suggested form of decree, and Exhibit B, findings of fact and conclusions of law.

Geo. E. H. Goodner, Munsey Building, Washington, D. C., D. I. Johnston, 824 Commerce Exchange Building, Oklahoma City, Oklahoma, Attorneys for Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company.

[fol. 321] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

[Title omitted]

MEMORANDUM OF DEFENDANTS, EBSARY GYPSUM COMPANY, INC. AND FREDERICK G. EBSARY, IN OPPOSITION TO PLAINTIFF'S PROPOSED FINDINGS, CONCLUSIONS AND DECREE—Filed March 7, 1949

The plaintiff has submitted proposed findings of fact, conclusions of law, and a decree which go beyond the necessities and ordinary results following the decision of the motion for summary judgment.

Findings of fact and conclusions of law have heretofore been made by this court in this action. A different result

which may have been arrived at upon appeal is supported by the decision and opinion in that appeal. New findings and conclusions are unnecessary. The form and substance of the decree should be the only questions for settlement.

Defendants object to the proposed findings, conclusions and decree generally upon the ground that they go beyond the scope of the issues determined by the court upon the [fol. 322] motion for summary judgment, and specifically upon the grounds hereinafter mentioned or referred to.

I

The Proposed Findings of Fact and Conclusions of Law

Counsel for defendants Ebsary Gypsum Company, Inc. and Frederick G. Ebsary has read the proposed memorandum of the defendant United States Gypsum Company in opposition to the proposed findings, conclusions and decree of the plaintiff, and as to the objections to the proposed findings of fact, concurs in the views expressed therein.

It should be sufficient as conclusions of law to state that the court has jurisdiction of the action; that the defendants, by entering into and performing under the particular patent license agreements, acted in restraint of trade or commerce among the several states with respect to gypsum board in violation of Section 1 of the Sherman Anti-Trust Act; and that the plaintiff is entitled to judgment on that issue. Anything beyond that would not be within the issues determined.

II

The Proposed Decree

In the recitals in the proposed decree of the plaintiff, references to Section 2 of the Sherman Anti-Trust Act should be eliminated.

Proposed Article I. This is a conclusion, and is unnecessary and superfluous in the decree.

[fol. 323] *Proposed Article III.* This is a conclusion, and is unnecessary and superfluous in the decree, and should in any event be limited to the corporate defendants and should not include the individual defendants, and should be

limited to gypsum board and not specify gypsum products.

Proposed Article IV. This is too broad in its scope. It should not include the individual defendants, nor should it include the defendants' attorneys.

Proposed Article V. The injunctive provisions should be limited to the corporate defendants. Paragraph 5, thereunder has to do with the basing-point delivery price, which was not an issue in this action and should be eliminated in its entirety. Paragraph 6. thereunder refers to dissemination of information and any restriction thereon is totally unwarranted and improper for any purpose. This paragraph should be entirely eliminated.

Proposed Article VIII. This was not an issue, and restricts the freedom of contract and sale and the right to determine with whom the defendants will do business. It should be eliminated in its entirety.

Proposed Article IX. This was not within the issues.

Proposed Article X. This should be eliminated in its entirety. The matter contained therein was not within the issues in the action. It restrains the ordinary lawful individual or corporate ownership of securities, interests and property.

Proposed Article XI. This should have no part in the decree, and is wholly unnecessary. Compliance with the decree can be secured by the attorney general by virtue of the means already given him by statute and the use of subpoena. In any event, a right to inspect books and papers should be limited to the corporate defendants.

[fols. 324-325] *Proposed Article XII.* The costs should be equitably divided between the plaintiff and the defendants, so that the plaintiff would bear one-half thereof. As between the defendants there should be a ratable division based upon some pertinent facts, such as their relative size, or relative amounts of business done, as in the year 1939, or upon some other equitable basis.

Respectfully submitted, Joseph S. Rippey, Attorney for Defendants Ebsary Gypsum Company, Inc. and Frederick G. Ebsary.

[fol. 326] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

HOLDING A THREE JUDGE COURT

Civil Action No. 8017

[Title omitted]

REPORTER'S TRANSCRIPT OF HEARING ON PROPOSED FINDINGS OF FACT, ETC., OF JUNE 13, 1949

Court Room, U. S. Court of Customs and Patent Appeals, Washington, D. C., Monday, June 13, 1949.

The above-entitled cause came on for oral argument upon the proposed findings of fact, conclusions of law, and decree, at 10:00 a.m., pursuant to notice, before Honorable Harold M. Stephens, Honorable Finis J. Garrett, and Honorable Joseph R. Jackson, sitting as the District Court of the United States for the District of Columbia.

[fol. 327] APPEARANCES:

On behalf of the plaintiff:

Edward Knuff, Esq., and Roscoe T. Steffen, Esq., Special Assistants to the Attorney General.

On behalf of the defendants:

Albert R. Connelly, Esq., Cranston Spray, Esq., Murray W. McEniry, Esq., and Hugh Lynch, Jr., Esq., for the defendants United States Gypsum Company, Sewell L. Avery and Oliver M. Knode.

Charlton Ogburn, Esq., and Norman A. Miller, Esq., for the defendant Certain-teed Products Corporation.

Ralph Wanlass, Esq., and Andrew Dallstream, Esq., for the defendant The Celotex Corporation.

D. I. Johnston, Esq., for the defendant Samuel M. Gloyd, doing business under the trade name of Texas Cement Plaster Company.

Joseph S. Rippey, Esq., for the defendants Ebsary Gypsum Company and Frederick G. Ebsary.
Benjamin P. De Witt, Esq., for the defendant Newark Plaster Company.
Elmer Finck, Esq., for the defendant National Gypsum Company.

[fol. 328] PROCEEDINGS

Chief Judge Stephens: The court is in session for the purpose of hearing argument on the proposed findings of fact and conclusions of law and decree to be entered upon a summary judgment, which by a majority vote of this court was to be entered in this case.

How much time do you think you will need, Mr. Knuff, to present your views?

Mr. Knuff: I would think an hour and a half to two hours, if the court did not hold me too strictly to that time, would be sufficient, your Honor.

Chief Judge Stephens: How much time do you think you will need, gentlemen, for the defendants?

Mr. Connelly: Speaking for the defendant United States Gypsum Company, certainly not more than an hour and a half to two hours.

Chief Judge Stephens: And will the other defendants wish to speak at length or not? I am not asking these questions with the view of unduly shortening your time, but simply to get some estimate of the amount of time likely to be required.

Mr. Finck: If your Honor please, I will probably need 20 to 25 minutes.

Mr. DeWitt: Your Honor, speaking for the Newark Plaster Company, what I shall need will depend on what is said. I do not believe I will need more than 20 minutes [fol. 329] to a half hour at the most.

Chief Judge Stephens: I shall have to announce that it will be necessary to conclude the case tomorrow. It will not be possible for the court to sit beyond tomorrow, and if it is possible to conclude it with fairness to all concerned today, that would be desirable.

We will not sit, then, in view of the announcement of

counsel, with a specific limit on time. We will allow that to be fixed as we go along.

You may proceed, then, Mr. Knuff.

May I ask, before you proceed: I find on my desk this morning an additional mimeographed motion for summary judgment or memorandum thereon with accompanying papers on the amended final judgment. Is this something in addition to what you have already presented?

Mr. Knuff: No, we have already presented that memorandum, as of June 29, 1948. I intend to refer to it in my oral statement, and I thought possibly the court might want to follow what I have to say by having it before them.

Chief Judge Stephens: Thank you.

Opening Argument on Behalf of the Plaintiff

By Mr. Knuff:

Mr. Knuff: With your Honors' permission, at the conclusion of the hearing on last June 29, 1948, the Government was directed to file proposed findings of fact, proposed con-
[fol. 330] clusions, and a suggested form of decree.

Those papers were filed, I think on the 27th of November of last year. Thereafter, the defendants were given 60 days to file objections to those proposals, and those objections were filed on the 4th of March of this year.

The court subsequently fixed May 13 and 14 as the date for hearing the oral argument, and that date was subsequently changed to today. I take it that the purpose of this hearing is to discuss the Government's proposed findings of fact, proposed conclusions of law, and proposed decree, together with the objections that have been filed to those proposals.

Chief Judge Stephens: Your statement should be corrected in one possible particular, Mr. Knuff. If you are intending to give the impression that the Government was required to file proposed findings of fact and conclusions of law, as distinguished from the decree, I think the record will show it was indicated to you that you might file such documents, if you saw fit, but the court had not committed itself as to whether or not findings of fact and conclusions of law as distinguished from the decree will be entered.

Mr. Knuff: I think that is right, your Honor, and that is what I intended to convey.

The plaintiff, if your Honors please, moved for summary judgment upon the whole case, and based its motion for that judgment upon (a) the pleadings and (b) all prior proceed-
[fol. 331] ings had in the case, including the testimony of witnesses, the admissions by counsel, and all exhibits.

So that there can be no doubt as to the scope of that motion, I would like to read the motion itself. The motion reads as follows:

> "Plaintiff, by its attorneys named below, upon the pleadings and all the proceedings heretofore had herein, including but not limited to all exhibits and testimony of witnesses, the admissions by counsel for the defendants, hereby respectfully moves this court, pursuant to Rule 56 of the Federal Rules of Civil Procedure, for summary judgment in its favor, or in the alternative.
>
> (2) If summary judgment is not rendered in the plaintiff's favor, upon the case, or for all the relief asked and a further trial is necessary, that the court at the hearing of the motion, by examining the pleadings and the evidence before it and by interrogating counsel, ascertain what material facts exist without substantial controversy and what material facts are actually and in good faith controverted, and thereupon to make an order specifying the facts that appear without substantial controversy and directing such further proceedings in the action as are just."

[fol. 332] The plaintiff in this case has always contended that the issue before this court is whether the defendants, being erstwhile competitors, by entering into common price-fixing patent license agreements for the purpose of organizing the industry and stabilizing prices, have violated Sections 1 and 2 of the Sherman Act.

Now, in stating the position of the Government as I do, it will be noted that we have not shifted our position. That is the position we took before this court throughout the trial of this case. It was the position we took on the motion to dismiss. It was the position that we took before the

Supreme Court and the same position that we took before the Supreme Court was adopted by the Supreme Court in its opinion. The Supreme Court said:

"The General Electric case affords no cloak for the course of conduct revealed in the voluminous record in this case. That case gives no support for a patentee, acting in concert with all members of an industry, to issue substantially identical licenses to all members of the industry under the terms of which the industry is completely regimented, the production of competitive unpatented products suppressed, a class of distributors squeezed out, and prices on unpatented products stabilized."

Chief Judge Stephens: Where is that in the opinion?

Mr. Knuff: That appears at page 400, if Your Honor [fol. 333] please, of the opinion.

Chief Judge Stephens: I have this slip opinion.

Mr. Knuff: I do not have a copy of the slip opinion.

Mr. Connelly: Thirty-four to thirty-five of the slip opinion.

Mr. Knuff: Page 400 of 333, Your Honor, is where it appears.

Chief Judge Stephens: Proceed, Mr. Knuff.

Mr. Knuff: "We apply the rule of reason of Standard Oil Co. v. U.S. 221 U.S. to efforts to monopolize through patents as well as in non-patent fields. Even in the absence of the specific abuses in this case, which fall within the traditional prohibitions of the Sherman Act, it would be sufficient to show that the defendants, constituting all former competitors in an entire industry, had acted in concert to restrain commerce in an entire industry under the patent licenses in order to organize the industry and stabilize prices."

So that there can be no doubt that on the motion for summary judgment we took the position that the entire case was to be disposed of, I would like briefly to review the contents of our brief that we filed with the court at that time. If the court will turn to page 3 of that brief, at the top of the page we said:

"In Point II of this memorandum we will consider the pleadings, the evidence, and the admissions and will dem-

[fol. 334] onstrate that there is no material issue of fact for this court to consider further; that the denials in the defendants' answers in reality amount to nothing more than denying the legal effects of facts rather than denying the facts themselves."

Judge Jackson: "Admitted facts."

Mr. Knuff: Legal effects of admitted facts.

Judge Jackson: You did not say "admitted facts" when you read it.

Mr. Knuff: I am sorry.

Then, under Point II of that memorandum we analyzed the complaints, paragraph by paragraph, in the light of, first, the answers of the defendants, and, second, the testimony of the witnesses and the exhibits offered in evidence.

We definitely told the court at that time that we relied upon the testimony introduced at the hearings. In this section—that is, Point II—we informed the court that we did not propose to draw our own inferences from the testimony and the exhibits. Instead, we stated that we would rely upon the inferences which the Supreme Court made.

We specifically said—and this appears at the bottom of page 3—

"In so far as it is necessary to refer to the facts gleaned from the testimony and exhibits, we shall adopt the summary of them as made by the Supreme Court in its opinion of March 8, 1948, on the appeal in this case."

[fol. 335] Therafter in Point II of that memorandum we classified the allegations of the complaint into certain designated classes and then referred this court to the particular passages in the Supreme Court's opinion dealing with each class.

For instance, on page 5 of the memorandum we referred to the early patent litigation in the industry and called this court's attention to pages 4 and 6 of the slip opinion of the Supreme Court.

Then on pages 5 and 6 of the memorandum we referred to the early license negotiations in the industry and called the court's attention to the activities of Mr. Blagden and Mr. Avery, as well as the activities of Mr. Griswold; and

on pages 5 and 6 we set out verbatim what the Supreme Court said.

We then referred to the period beginning with July, 1927, and ending with May, 1929—that is the period of further negotiations within the industry for patent licenses—and we again set out verbatim what the Supreme Court said about the evidence covering this period. That appears in our memorandum at pages 7 to 9.

Also in the memorandum we set out what took place in the industry beginning with the last day of the May, 1929, meeting, and ending with the execution of the so-called November, 1929, licenses.

Here again we set out not our version of what took place but the verbatim statement made by the Supreme Court. [fol. 336] That appears at pages 10 to 13 of the memorandum.

Following the entering into the industry-wide license agreements, we discussed in the memorandum what happened in the industry while the industry was operating under the license agreements.

For instance, at page 15 of the memorandum we pointed out that prices on board had been raised and stabilized and quoted what the Supreme Court said the evidence established concerning prices.

Likewise, on pages 15 and 16 of that memorandum we pointed out that board had been standardized, that No. 2 board had been eliminated, that open-edge board had been eliminated, and that seconds had been eliminated; and, again, we set out verbatim what the Supreme Court said concerning this standardization.

Judge Garrett: Just a moment. What did it say on that? You have it in the memorandum?

Mr. Knuff: I have it, sir, right in the memorandum.

Judge Garrett: I have forgotten.

Mr. Knuff: Beginning at the bottom of page 15 of the memorandum the Supreme Court's opinion summarized the evidence relating to the standardization of board in these words:

> "The Government introduced evidence tending to show that the price of first quality——"

Chief Judge Stephens: Just a moment, Mr. Knuff.

Judge Garrett: I do not seem to have the memorandum. [fol. 337] Very well, I have it now.

Mr. Knuff: Does Your Honor care to have me proceed and read what the Supreme Court said?

Judge Garrett: No, that is all right. I will read it. Go right ahead.

Mr. Knuff: On pages 17 and 18 of that memorandum——

Judge Garrett: I will ask you to go back for a moment there. The statement of the Supreme Court there is: "The Government introduced evidence tending to show that the price," and so on. Did they make a finding or draw an inference from that?

Mr. Knuff: To this extent, they did. Toward the end of the opinion the Supreme Court said:

> "The General Electric case affords no cloak for the course of conduct revealed in the voluminous record in this case. That case gives no support for a patentee, acting in concert with all members of an industry, to issue substantially identical licenses to all members of the industry under the terms of which the industry is completely regimented, the production of competitive unpatented products suppressed. . ."

So I would say that the Supreme Court did say that unpatented products were suppressed.

Chief Judge Stephens: What it said, to be a little more exact, was this: There was a prima facie evidence showing that suppression.

[fol. 338] Mr. Knuff: That is right. Now, there has not been introduced in this case any other evidence which was before the court. So, therefore, we take the position that that prima facie case now becomes conclusive.

Chief Judge Stephens: That raises a point which, although I am in a dissenting position in this case, I think I ought to ask you something about; and that is the rather startling position for the Government to take, one which comes as a surprise to me—you contend, do you, that the opinion of the Supreme Court is now binding conclusively on all statements which it made in respect of the prima facie case?

Mr. Knuff: I do, Your Honor. There is nothing before the court other than what was before the Supreme Court.

Chief Judge Stephens: I thought my colleagues entered their summary judgment upon the theory that there was nothing before the court but an issue of law under Rule 56.

Mr. Knuff: There was an issue of law before them, and that issue of law was that there was no genuine issue of fact as to any material matter.

Now, the material matters that were before the court concerned the raising of prices, the standardization of product, and the court, after taking into consideration what the Supreme Court said and after taking into consideration what the defendants proposed to prove by their proffer, the court said that even assuming everything that the defendants said they would prove would be proved, still, that would not [fol. 339] alter what the Supreme Court has said.

Judge Garrett: Insofar as the Supreme Court had spoken upon any material question of fact or of law.

Mr. Knuff: That is right.

Judge Garrett: At least, I think that is what we meant.

Mr. Knuff: I think that is the position Your Honors took.

Chief Judge Stephens: Do you take the position that even if you had not made a motion for summary judgment, that under the opinion of the Supreme Court the defendants would not have been entitled to any day in court on any question of fact?

Mr. Knuff: I will come to that later when I compare what would have happened if we had not made the motion for summary judgment with what actually has happened in this case. I would like to defer answering that question until I come to that portion of my argument.

Chief Judge Stephens: You contend, I assume, that your motion for summary judgment was meritorious.

Mr. Knuff: Yes. Oh, yes, indeed:

At pages 17 and 18 of the memorandum we pointed out that the industry attempted to fix and stabilize the prices of unpatented gypsum products and again quoted the identical language the Supreme Court used in summarizing this evidence.

At pages 18 and 19 we pointed out that the jobbers had been eliminated from the industry and were careful to quote

the language the Supreme Court used concerning the elimi-
[fol. 340] nation of jobbers.

We did not discuss in that memorandum the metallized board or the perforated lath licenses, nor did we discuss the attempts of the industry to fix the resale prices of manufacturing distributors.

As to these matters, however, we were very careful to point out that they were not waived, and that appears in our memorandum at pages 13 and 20.

Then, after discussing in this memorandum the things that I have just pointed out, we concluded this portion of our memorandum with the following statement, and this appears on page 22:

> "From what has heretofore been summarized it is apparent that the defendants have violated the Sherman Act just as charged in the complaint. Furthermore, it is apparent that on the basis of the complaint and answers alone there is no genuine issue of fact between the parties as to any material facts, for it is obvious, we submit, that the denials contained in the answers do not deny the facts; instead, the denials deny the legal effects of the facts. The Supreme Court decided that the legal effects were such as to violate the Sherman Act. Of course, when the uncontradicted evidence is considered (and parenthetically we add that it never can be contradicted) we have in this case facts which 'are overwhelming evidence of a plan of the licensor and the licensees to fix prices and regulate [fol. 341] operations in the gypsum board industry."

Judge Garrett: You say that even if the Supreme Court had made no finding on that—and I believe you practically concede that it did not make a finding——

Mr. Knuff: Finding on what, Your Honor?

Judge Garrett: The matter that you have just now been discussing.

Mr. Knuff: Oh, no, I say the Supreme Court did find that the legal effects of these facts were such as to constitute a violation of the Sherman Act. I said that. If I did not, I misspoke myself.

Judge Garrett: Perhaps I misunderstood you.

Mr. Knuff: Then in our memorandum of that same day we pointed out that the facts—and we used the words "the facts of this case"—show that the defendants had acted in concert to organize the industry and stabilize prices. In that memorandum we pointed out that the defendants are all the manufacturers of gypsum board in the territory east of the Rocky Mountains, that prior to May, 1929, competition at the price, quality, and service levels existed in the industry, that since that date competition at those levels has not existed.

We pointed out that in May, 1929, all of the defendants entered into patent license agreements and that these license agreements were substantially identical and all provided for price control.

[fol. 342] We pointed out that on the last day of the May meeting Mr. Avery offered to license the entire industry under the new bubble patent application.

We pointed out that subsequently the industry was licensed under the bubble application and that these licenses were referred to in the proceedings as the so-called November, 1929, licenses; that from the time these licenses were entered into, we pointed out that prices have been fixed down to July 8, 1941. Then, after pointing out all of those things, we said—and this appears at page 27 of the memorandum:

> "Thus far there can be no question that there is no genuine issue of fact in the case. It would be possible further to show that the defendants have also done many other things for the regulation of the gypsum industry which constitute unlawful restraints of trade. For example, there is no question that U. S. G. issued the bulletin of August 8, 1930, Government Exhibit No. 430, leveling off the price of board to jobbers with that applying in case of sales to dealers. There is also no question that jobbers, as the term is defined in the November, 1929, agreements, have been eliminated from the industry. Again there is no question but U. S. G. fixed the price of open-edge boards, No. 2 board, and seconds at the same amount as regular Sheetrock and that subsequently open-edge board, No. 2 board, and seconds have been eliminated from the market. Also,

there is no real question that the bulletin provisions [fol. 343] concerning rebates have operated to stabilize the price of plaster and other unpatented gypsum products sold in conjunction with board. There admittedly has been policing of the licensees by U. S. G. and its licensees through Board Survey. These, and many other practices stand in the record admitted, and, being done in concert, constitute traditional violations of the Sherman Act.

[fol. 344] "For the purposes of the present motion, however, it is not necessary to rely on these traditional violations in order to show that the plaintiff may have judgment."

And right there we insert a footnote reference, and that footnote reference reads:

"It will be understood, of course, that we do not abandon these traditional abuses."

We continued in the memorandum and said:

"As the Supreme Court said: 'Even in the absence of the specific abuses in this case, which fall within the traditional provisions of the Sherman Act, it would be sufficient to show that the defendants, constituting all former competitors in an entire industry, had acted in concert to restrain commerce in an entire industry under patent licenses in order to organize the industry and stabilize prices.'"

We quoted the slip opinion at page 35. To continue:

"In other words, it is enough to show that the defendants, being erstwhile competitors, have acted in concert to stabilize prices in an entire industry. This, we submit, has been shown beyond any doubt at all."

Then under the Point which we designate as "Conclusion" in the memorandum, here is what we ask the court to do—and this appears at page 42 of that memorandum:

[fol. 345] "For the reasons herein specified, it is respectfully submitted that the motion for summary

judgment should be granted. It is further respectfully requested that if the motion for summary judgment is not granted upon the whole case, this court shall make an order specifying the facts that appear without substantial controversy, and that the trial shall proceed only upon the facts specified as controverted."

At the oral argument in this case Mr. Steffen took the same position. That is, that this entire case was going to be disposed of on the motion. He began his oral argument by referring to the Supreme Court's opinion, and he said at that time that the Supreme Court has said in the opinion substantially what we heretofore had said when the case was before this court.

He called attention to what the Supreme Court said, and particularly he directed the court's attention to that portion of the Supreme Court's opinion which begins:

"That case affords no cloak for the course of conduct revealed by the voluminous record in this case."

And then, after referring to that portion of the Supreme Court's opinion, Mr. Steffen then said:

"I think for purposes of present argument, although we do not waive the point, that many of the abuses such as the court referred to in this portion of its opinion, such as controlling plaster prices, perhaps con- [fol. 346] trolling manufacturing distributors, fixing the size of truck loads, the amount of dunnage, eliminating jobbers, all of these abuses, if proven to have been done by concerted action, would normally constitute a violation of the Sherman Act, can for the purpose of this argument be laid to one side and we can look simply to whether or not the defendants combined under the patent licenses, being erstwhile competitors, covering an entire industry and fixed prices.

"Judge Garrett: The Supreme Court said that, did it?

"Mr. Steffen: That is as I read it, Your Honor.

"Judge Garrett: In other words, all these matters of dunnage and freights, and all of that, are not nec-

essary to the board decision that the court was making. Is that the way you interpret it?

"Mr. Steffen: I would say this: For purposes of a motion for summary judgment and for purposes of the Supreme Court's opinion, it isn't essential to show all of those violations. If you have shown price control alone, you have a case.

"Our purpose, therefore, is to clear this as nearly as we can to the essential point in issue—which we think is not in issue, and ask Your Honors for summary judgment on that basis.

"Then, when it comes to the matter of formulating [fol. 347] the degree, if you should give us summary judgment, then many of these matters will come up. I think you will find that most of them will be rather easily handled upon the decree."

Then, throughout the argument Mr. Steffen referred to the so-called——

Judge Garrett: Were you reading that from this pamphlet?

Mr. Knuff: I was reading that from my memorandum beginning at page 8, the second complete paragraph on that page.

Judge Garrett: Of this printed document?

Mr. Knuff: Yes, Your Honor, page 8.

Judge Garrett: Thank you.

Mr. Knuff: During the course of Mr. Steffen's further argument he indicated clearly enough that this entire case was before the court for disposition. He referred to the so-called traditional violations and related these traditional violations to the patent license agreements.

At transcript 7816, line 17, he dealt with the regimentation of the industry, the standardization of product, and elimination of jobbers.

Then at transcript 7820, line 16, he talked about regulating truck loads and delivery areas.

At transcript 7831, line 20, he talked about the policing activities of Board Survey.

On the following page, 7832, line 7, he talked about the [fol. 348] licensee meeting of October 17, 1932.

Then at transcript 7856, line 17, he again discussed the problem of the elimination of jobbers.

On the following page at line 12, he took up another question concerning an elimination of a class of dealers. That is, the elimination of Cardiff Gypsum Company.

At transcript 7863, line 1, he again referred to the elimination of jobbers.

On the following page, beginning with line 19, he again discussed the elimination of jobbers and the question of dunnage.

And, finally, at transcript page 7917, beginning with line 8, he discussed the elimination of jobbers, regulating dunnage, defining trucking areas, fixing the size of truck loads, and everything that has gone on in the industry.

In other words, Mr. Steffen discussed in his oral argument just what had been done in the industry after the so-called November, 1929, licenses were executed. Now, when you consider the composition of our brief, when you consider what Mr. Steffen argued before this court in his oral argument, I think that you must come to the conclusion that we expected this court to decide the whole case.

Chief Judge Stephens: Mr. Knuff, in the interest of saving time, what difference does it make what counsel on either side of the case expected of the court? The question before us is: What ought the court decide? Ought we grant a judgment on the whole case or ought we just [fol. 349] grant it on those undisputed issues which were the foundation, as I understood it, of my colleagues' summary judgment?

Mr. Knuff: Well, if you do not grant it upon the whole case, then I think that this court will have to comply with the provisions of Rule 56(d) and hold further hearings on this case.

Chief Judge Stephens: Well, I cannot understand why we had so much misunderstanding in the case. I had thought that this summary judgment proceeding arose as follows. It is all in the transcript, which I reviewed last night with some care.

After the mandate of the Supreme Court came down, counsel and the court met here, and the Government sug-

gested a so-called pre-trial or mid-trial hearing for a definition of what further issues remained in the case in view of the Supreme Court's opinion and for a statement or an order by the court as to what further evidence the defendants would be permitted to introduce.

The defendants objected to a pre-trial hearing or a mid-trial hearing and suggested that, on the contrary, if there were some dispute between the parties as to what further evidence might be introduced, in view of the Supreme Court opinion, that interrogatories be served upon them.

In the course of that colloquy it was indicated by Mr. Bromley, then counsel for the Gypsum Company, that the Government had been contemplating a motion for sum- [fol. 350] mary judgment, and that the Government admitted.

In the course of further conference and informal discussion between court and counsel, it developed that there was a good deal of confusion in the minds of all of us as to what the reach of the Supreme Court opinion really was, as to how far it went. It was indicated that it would be desirable for this court to express itself on that subject in order that counsel on both sides might be advised as to what further proceedings there would be.

We indicated, however, from the bench that there was nothing before us to rule upon. Finally, in the interest of what seemed fairness to all concerned, in order to get something before the court to rule upon, it was suggested that you make a motion for summary judgment, based upon the rule which provides that where there is no genuine issue as to any material fact, a summary judgment can be entered.

We, for the purpose suggested, said that we would entertain a summary judgment, a motion for summary judgment.

You, of course, were not compelled to make such a motion. But you did make it and you argued it, and with vigor, and the defendants resisted it. As I understood the whole argument in favor of the proposed summary judgment and the argument against it, it came down to the single proposition that the Government contended that the Supreme Court had ruled in its reversal of our decision that mere plurality [fol. 351] of patent license agreements, industry-wide, with

price fixing provisions adhered to by the parties was ipso facto illegal and, there being no dispute in the case—so it was contended—that there was such an industry-wide price fixing arrangement, that was the end of the matter and the case should, therefore, be terminated by a summary judgment limited to that one undisputed question.

Now, I understood that my colleagues reached the conclusion when they granted Government's motion for summary judgment, that the Supreme Court had so ruled; and I stated in a brief oral dissent that I thought it had not so ruled and, therefore, I did not agree that summary judgment could be entered.

So I thought that the action of the court, as far as the majority was concerned, in granting the motion for summary judgment was merely that a majority of the court—my two colleagues—thought that the Supreme Court had ruled that a mere plurality of patent licenses with price fixing provisions, industry-wide, adhered to by the parties was ipso facto illegal; and, therefore, the Government was entitled to a summary judgment because there was no dispute in respect to that question.

I thought that the Supreme Court had not so held, that if it had so held, it would have ordered a summary judgment entered itself and ended the case, and that because it had sent the case back for further proceeding, what it meant was that there must be something more than a mere plurality of patent licenses, there must be some action in concert [fol. 352] or some plan or some conspiratorial purpose to violate the Sherman Act, and that the defendants, as I read the Supreme Court's decision, were entitled to further proceedings in order to try and rebut the prima facie case of the Government, which the Supreme Court said had been made in respect of the charges of the Government, that there was a plan, a conspiracy, to violate the Sherman Act through the execution of sham licenses and with a general improper purpose to stabilize prices and eliminate competitors and standardize board, and the like.

I thought that was the posture the case had taken at the time we entered the summary judgment, and I think that is the view my colleagues had when they entered their summary judgment.

Now you are asking the court, apparently, to go far beyond that and to conclude that the Supreme Court meant that the case had been decided by it without reference to any evidence which the defendants might introduce and that, therefore, we must enter a decree as if the whole case had been completely tried.

I make this extended statement in order to clarify, if I can, what is before us, because it seems to me that you are now not arguing what form of decree should be entered, but you are re-arguing the question as to what was done by the court when it entered its summary judgment.

Mr. Knuff: I have to re-argue that because——

Judge Jackson: May I interrupt you a minute, Mr. Knuff?

Mr. Knuff: Certainly.

[fol. 353] Judge Jackson: Of course, you will recall that at the time the motion for summary judgment was made, Mr. Bromley, on behalf of all the defendants, made a proffer of proof as to what facts would be brought out on the stand if the case was continued for further evidence.

Mr. Knuff: That is right.

Judge Jackson: I, for one of the majority—and I assume my colleague, Judge Garrett, thought the same way about it—felt that if he proved everything he was going to prove, that it would make no difference.

Mr. Knuff: That is right.

Chief Judge Stephens: I neglected to say also the court required the defendants to make a proffer, which they did, at the same time you made your motion for summary judgment.

Mr. Knuff: I think the court requested the defendants to make a proffer, I don't know whether the court required them to do so.

Judge Jackson: It does not matter whether it was required or requested. It was done.

Chief Judge Stephens: As to the word "required", I accept your amendment. Thank you, Mr. Knuff. The court did not require anything of either side. The court suggested and requested these items. Counsel were not compelled to make a proffer. If they wished not to do so, they need not have done so. You were not compelled to make a motion for summary judgment.

Mr. Knuff: That is right.

[fol. 354] Chief Judge Stephens: The whole matter was a friendly and cooperative arrangement, as we understood it, in order to get a ruling from this court as to what the Supreme Court opinion meant.

Judge Garrett: I cannot see where there could be a misunderstanding about this matter, although evidently there was. In regard to what you read from the record on page 8 of your memorandum beginning with the quotation of the Supreme Court, certainly, Mr. Steffen indicated, and indicated clearly, that the matter of dunnage and freights and all of that was not necessary, that the Government had a case without that, and the majority of this court agreed with that and gave summary judgment based upon that theory.

Now, there is complaint here, a complaint was made that the parties should be permitted to introduce testimony. We did not feel that any testimony was necessary. Where the Supreme Court had specifically found facts and applied law to the facts, certainly, there was no necessity for it. We cannot grant a new trial of a case that the Supreme Court has decided.

Now, apparently you seek to bring in here and have embodied in this decree questions which at that very time it was stated were unnecessary to the summary jugment. I do not understand it, Mr. Knuff. It makes it hard. It makes it intensely hard on a court to have to be called on—you are entitled to a decree. If you draw a decree in conformity with the decision of the Supreme Court of the United States, [fol. 355] you are entitled to it, of course, and this court will cause it to be entered, because that becomes part of the duty of this court.

But to undertake to make us reconsider here a lot of questions that the Supreme Court did not decide, I just do not understand that. It worries me.

Mr. Knuff: May I reply to what Your Honor has said?

Judge Garrett: Certainly.

Mr. Knuff: When Mr. Steffen answered your question, you must take into consideration that Mr. Steffen answered that in the light of saying that he was not waiving anything in this case.

Judge Garrett: Oh, certainly.

Mr. Knuff: You must take into consideration the context of our brief. We ask the court not to take one isolated statement by which the court now feels Mr. Steffen waived something. We ask the court not to take that one isolated statement and disregard everything else that Mr. Steffen said. Read that statement of Mr. Steffen in context with the brief. Read it in context with what he said in the subsequent portion of his argument. Do not take one statement that Mr. Steffen said—and I do not think even that statement goes as far as Judge Garrett indicates—but do not take one isolated statement and say the court is now going to decide this case upon that statement. Take the statement in conjunction with everything that we said.

[fol. 356] Judge Garrett. Now, let's see. I read again Mr. Steffen's statement made at that time. I would say this:

For the purposes of a motion for summary judgment and for the purposes of the Supreme Court's opinion it is not essential to show all of those violations, referring back to dunnage and freights, and so on—"if you have shown price control alone, you have a case."

Now, we thought Mr. Steffen correctly stated the law and so proceeded.

Chief Judge Stephens: I may add this before you reply, Mr. Knuff. What I thought Mr. Steffen meant and what I thought we had a reasonable right to conclude from his argument was that if we entered a summary judgment or if the majority, as it has now, had entered the summary judgment on the theory that a mere plurality of price fixing licenses, adhered to by the parties was without more irrespective of any plan or conspiratorial intent to violate the Sherman Act illegal; if the court thought that was what the Supreme Court's opinion meant and entered a summary judgment upon that theory, I thought that was enough to satisfy the Government as far as summary judgment was concerned; but that if it should turn out upon a review of the summary judgment when entered that the Supreme Court had not held that a mere plurality of patent licenses with price fixing provisions without more was illegal, then, of course, the Government would not waive its right in a further trial of the case to have a disposition of it in the

[fol. 357] manner in which it contends it should be disposed on the other issues of fact.

Mr. Knuff: Look what Mr. Steffen said at that time:

> "For the purposes of "a"—not "this"—"for the purposes of a summary judgment and for the purposes of the Supreme Court's opinion, it isn't essential."

We could have moved on that basis and moved on that basis alone, but we did not. Our motion says that we are asking for summary judgment upon the whole case. We could have thrown everything out the window that the Supreme Court had given us on the opinion and we could have moved for summary judgment on the basis of a plurality of licenses constituted a violation of the Sherman Act. We could have done that. We did not do it. We moved for summary judgment upon the whole case.

Chief Judge Stephens: Well, it seems to me that we are wasting time. Of course, I am only the moderator here. I am in a dissenting position. You are entitled to make any argument within a reasonable length of time that you wish to make. You are not restricted in that respect.

The question before us is not what you moved for, the question is what you are entitled to. That is what the majority has to decide, the kind of decree. You have got your motion for summary judgment granted. The question before us now or before the majority now is whether or not, first, findings of fact and conclusions of law should be entered, and, second, what should be the terms of a [fol. 358] decree?

Mr. Knuff: Yes.

Chief Judge Stephens: It may enlighten us, of course, to know what you contended and, of course, if we had a complete misunderstanding of all the Government was asking for, we ought to know it, and you are free to attempt to correct our view in that respect; but please bear in mind in view of the very large number of counsel that have to argue here that what is really before us is whether or not we should enter findings of fact and conclusions of law and what form the decree should take.

Mr. Knuff: Well, I think that is all that is before the court, but in order to take up the form of what the findings of facts should be, it is necessary first to determine what the scope of our motion was.

Judge Jackson: Why do you not assume that the court has its own understanding of what that scope is? We have had plenty of oral argument and we have had plenty of briefing on that, Mr. Knuff. Assume that we know.

Mr. Knuff: All right, sir. Mr. Steffen asks if we could have a recess at this time.

Chief Judge Stephens: We will take a recess for fifteen minutes.

[fol. 359] Chief Judge Stephens: Proceed.

Mr. Knuff: May it please the court, I shall pass immediately to the proposition that the court should make findings of fact. Although Rule 52(a) of the Federal Rules of Civil Procedure says that on motions for summary judgment, findings of fact are not necessary, nevertheless in cases like this one, courts have recognized that the findings of fact are desirable.

So, in our memorandum we quote from the Prudential Insurance Company case, and we also quote from the Saginaw Broadcasting case which was decided here in the District.

There is a later opinion of the Court of Appeals which the defendants cite in their brief, the case of Berman v. Lenkin, reported at 159 Fed. 2nd, at 827. That case also was one in which a motion for summary judgment was interposed and Judge Groner, in deciding that case, said this:

> "We think it is always desirable that the facts should be found to aid us."

There are no reported cases in the books where the facts exactly parallel the situation which we have in this case, but the Associated Press case is sufficiently similar to the facts in this case that this court can conclude that that case is of persuasive enough authority to warrant this court in adopting the procedure that was used in that case.

The Associated Press case, like this case, was a civil antitrust action brought in the Southern District of New York——

[fol. 360] Judge Jackson: That is cited in your brief?
Mr. Knuff: That is cited in my brief.
(continuing)—in which the Government charged the defendants therein with violating sections 1 and 2 of the Sherman Act. That case, like this one, was tried before a statutory three-judge court.

After the answers were filed, the report of the case indicates that much testimony was taken in the form of interrogatories, admissions under Rule 36, examination before trial, and affidavits.

There, as in this case, the Government moved for summary judgment and that motion was granted.

The opinion of the case was rendered on October 6th, 1943, and in the opinion the court says this:

> "The plaintiff will submit proposed findings and a proposed judgment and will serve the same upon the defendants, who will submit any substitute they may wish within thirty days thereafter."

Thereafter, on January 13, 1944, the District Court made findings of fact and conclusions of law, and the place where they are reported is indicated in our memorandum.

We take the position that this case has been tried upon the facts within the meaning of Rule 52(a). Rule 52(a) says that in all cases tried upon the facts, the court shall find the facts specially and state its conclusions of law. The circumstances under which this case came before this [fol. 361] court for decision are such that this court can say that the case has been tried upon the facts.

> "The instant case," said the opinion of the District Court, "came on for trial on November the 15th, 1943, and continued thereafter for some sixty-six trial days."

The testimony of some twenty-eight witnesses was heard before the court. Six hundred and forty-one exhibits were received in evidence. At the conclusion of the Government's case, the defendant made a motion to dismiss that was orally argued and the motion was granted. Thereafter, the Government perfected an appeal to the Supreme Court and the Supreme Court on March 8, 1947, reversed this court. Thereafter, on June 7th, as Judge Stephens indicated ear-

lier, a conference was held and Judge Stephens stated what took place at that conference.

Now, it is our position that the posture that this case has assumed is such that it requires findings of fact to be made.

If you will stop one moment to consider what would have happened if no motion for summary judgment had been made, and then consider what has happened because a motion for summary judgment has been made, I think that you will find that there is no material difference between the two procedures.

Judge Garrett: May I ask you a question?

Mr. Knuff: Certainly, sir.

Judge Garrett: Findings of fact should be made upon questions upon which the Supreme Court did not make find-
[fol. 362] ings of fact, is that right?

Mr. Knuff: Yes, Your Honor, under the posture of this case.

Judge Garrett: Then, you would not expect this court to find facts not passed upon and not found by the Supreme Court and which were challenged in the proffers of proof to be passed upon, without opening this whole question again for that proof?

Mr. Knuff: If Your Honor pleases, the Supreme Court could not have made any findings of fact when this case was before it. The Supreme Court did not know what was going to happen after the reversal. The Supreme Court did not know whether or not the defendants were going to deny the execution of the patent license agreements. The Supreme Court could not know what was going to happen when it came time for the defendants to put in their case. Therefore, the Supreme Court could not make any findings of facts that would be conclusive. All that the Supreme Court could say was that "On the facts before us, the record is clear that the Sherman Act has been violated."

It may be, as far as the Supreme Court knew, that these defendants were going to deny the issuance of the licenses, of the bulletins, that they were going to deny the execution of the license agreements——

Chief Judge Stephens: How could that possibly be, when they had admitted that in their pleadings?

[fol. 363] Mr. Knuff: The Supreme Court couldn't tell what the defendants would do.

Chief Judge Stephens: The defendants are bound by their pleadings.

Mr. Knuff: That is right.

Chief Judge Stephens: And in the pleadings they admitted the execution of the patent licenses and sending out of the bulletins.

Mr. Knuff: That is right; but the Supreme Court could not tell what position the defendants would take subsequently in this case. They could have denied even that there were any patents, so the Supreme Court could not make any findings of fact.

Chief Judge Stephens: They could not do that without stultifying their own pleadings.

Mr. Knuff: I grant you that.

Chief Judge Stephens: It is not understandable that the defendants file, before a federal court, a solemn sworn answer, admitting the execution of the patent license agreements, and sending out the bulletins, and then turn around, in their own case, and deny it.

Mr. Knuff: The Supreme Court couldn't tell what they were going to do.

Chief Judge Stephens: They are bound by their pleadings just as much as the Goverment would be.

[fol. 364] Mr. Knuff: That is true, but the Supreme Court could not tell what the defendants were going to do——

Chief Judge Stephens: Proceed.

Judge Jackson: They could not tell what evidence the defendants might have that they wanted to submit.

Mr. Knuff: That is right.

I was talking about what would have happened if we had not made any motion, and what actually has happened. I was going to compare what would have happened if no motion had been made. This case would have been set down for the taking of defense testimony.

It can be assumed that when the witness was called to testify, that the government then would have asked the attorney calling the witness for an offer of proof that he proposed to adduce by the witness on the stand. It can be further assumed that the attorney would have stated that

he proposed to prove, by the witness on the stand, one or more of the matters which were filed as a part of the proffer. It can be further assumed that the government would object to that offer of proof.

Now, in view of the action taken by this court on June 29, it can be assumed that that objection made by the Government would be sustained.

Now, this piecemeal calling of witnesses, requests for an offer, the offer, the objections, the sustaining of the objec- [fol. 365] tions, would go on and on until the defendants had exhausted the entire witness list that they intended to call to establish the total of their proffers.

When their witness list was exhausted, they necessarily would have been required to rest their case; and yet, there would not have been before this court any defense testimony.

In such a situation, I submit no one would argue that the case has not been tried upon the facts.

Now, the only difference between what would have been done and what actually has been done is this: We, by our motion for summary judgment, have brought before this court, promptly and collectively, everything that the defendants would have brought before this court by their piecemeal calling of witnesses.

If, on the one hand, it is conceded that the calling of witnesses and the offers and the objections would constitute a trial upon the facts, then certainly under this more efficient method of disposing of those legal questions, a holding that that does not constitute a trial upon the facts seems to me to involve a very unrealistic appreciation of what is meant by the phrase "tried upon the facts."

But the question whether or not findings of fact now should be made cannot be determined by the Rules of Civil Procedure alone.

Judge Garrett: May I interrupt you a moment?

Mr. Knuff: Certainly, sir.

Judge Garrett: The Supreme Court made findings of [fol. 366] fact. It reversed this court on findings of fact. Why can you not take the decision of the Supreme Court of the United States and draw a decree?

Now, you want to come back here and have us try it, and try it again. Here is the case. Here is the decision. Why

cannot the government draw a decree in conformity with this opinion of the Supreme Court of the United States? They have passed on the facts. All that they regarded as material to be passed upon, has been passed upon.

Why is it that we have to just worry and worry our lives out about this matter?

Here, the Supreme Court has spoken. That is the law, so far as courts are concerned, and so far as citizens are concerned.

Why can you not just take that opinion and draw a decree from it? It was not sent back to us to draw a decree. It was reversed and remanded for consideration in conformity with this opinion. I think that is the way it is expressed.

Mr. Knuff: That is right.

Judge Garrett: Now, why do you not take that opinion and draw a decree here and let us get rid of this? Why do you persist in bringing into this matters which we did not decide and which the Supreme Court apparently did not decide? You had better look at the decree carefully and see, I mean.

You are entitled to draw the inferences that the Supreme [fol. 367] Court drew from certain facts, I think, in formulating your decree; but, it is not now an issue here between the Government and the defendant. It is an issue, I guess, between what the Supreme Court decided and what we decided. I have read, of course, not all of these briefs, I have not had the time, and perhaps I am anticipating counsel for defense somewhat, but why can you not take that opinion, why can you not get together and take that opinion and draw a decree in conformity with us and let us decide this case and get rid of it?

Mr. Knuff: May I answer Your Honor?

In the first place the Supreme Court did not make any findings of facts. This case may go back——

Judge Garrett. They reversed. Of course you know what I mean. They reversed this court upon the facts, or at least upon inferences drawn from the facts.

I venture to say, here, now, that I do not believe a more careful opinion in a case of this magnitude was ever pre-

pared than that prepared by the presiding judge of this three judge court. Every minutia was gone into.

The Supreme Court reversed upon certain phases of that opinion. The reversal was sufficient to give the Government a decree.

Judge Jackson and I thought that, within the limits of the decision of the Supreme Court, that decree should of course be granted and that nothing that was given us in the [fol. 368] proffer of proof would change the attitude of the Supreme Court within the scope of those matters upon which it had specifically passed.

Now, that was the summary judgment. I am sorry not to be able to understand, but are you seeking to reopen that case?

Mr. Knuff: No, Your Honor. We are seeking to have this court comply with what we conceive to be the mandate of the Supreme Court. The Supreme Court did not make any findings of fact. The Supreme Court sent this case back to this court to make findings of fact, and here is what the Supreme Court said about that,——

Judge Garrett: Then, I guess we had better change our view, I mean, I had better change my view and let the findings of fact be made.

Judge Stephens evidently must have been right, if that is the interpretation, it was sent back here to this court to make findings of fact. Then, it was evidently necessary to have evidence to make findings of fact.

Mr. Knuff: May I continue?

Judge Jackson: Suppose you put forth your contentions and then we will have Mr. Connelly or whoever will speak on behalf of the defendants, put forth their contentions.

Mr. Knuff: May I continue with what the Supreme Court said in connection with sending the matter back?

On page 399 of the Supreme Court opinion, this appears at page 21 of the government memorandum, this is [fol. 369] what the Supreme Court said:

> "The trial court made many other findings to which the Government objected——"
>
> Chief Judge Stephens: Is this on the slip sheet?
>
> Mr. Connelly: Thirty-three.

Chief Judge Stephens: Thirty-three?

Mr. Knuff: I will start over again:

"The trial court made many other findings to which the government objected and yet to determine here whether each is erroneous is unnecessary. Perhaps looked at in isolation some of the government's charges are not proved with the fullness that would justify our reversal of the findings of the District Court on the point. It may be in the light of this opinion the District Court will conclude that many such findings are no longer significant in reaching its decision."

Now, note:

"As to others a different result will be required. Enough has been said as to the findings and the evidence, we think, to enable the District Court to pass upon the facts that may come before it on further proceedings in accord with our present ruling."

Now, since the Supreme Court has indicated that -his court is to pass upon the facts in further proceedings, and a motion for summary judgment is a further proceeding, I [fol. 370] do not know of any way that this court can comply with that mandate other than by making findings of fact.

Chief Judge Stephens: I thought, Mr. Knuff, the further proceedings which were contemplated by the Supreme Court, was an opportunity to the defendant to put in proof.

In that portion of the opinion from which you read earlier this morning, the Supreme Court said:

"The General Electric case affords no cloak for the course of conduct revealed in the voluminous record in this case. That case gives no support for a patentee acting in concert with all members of an industry to issue substantially identical licenses, etcetera."

And then, it repeats:

"In the absence of specific abuses in this case which fall within the traditional prohibitions of the Sherman Act, it would be sufficient to show that the defendants, constituting all former competitors in an entire industry, had acted in concert in restraining commerce in an entire industry under patent licenses, in order to organize the industry and stabilize prices."

I thought when the Supreme Court held that a prima facie case of action in concert to restrain commerce in an entire industry under patent licenses, in order to organize the industry and stabilize prices had been made, it meant only to reverse our conclusions that it had not been made [fol. 371] and that in sending the case back to us for further proceedings, it meant to give the defendants an opportunity for a day in court to try and convince the court that they had not acted in concert, and had not executed the licenses other than to organize the industry and stabilize prices.

It seems to me that it really is very difficult to reach the conclusion that the Supreme Court has ordered us to make findings of fact without any further evidence in this case. Surely the due process clause gives the defendant the right to try and meet the Government's prima facie case, does it not?

Mr. Knuff: That's right, and they had a day in court. They made their proffer as to what they intended to prove, and this court, said, at least a majority said, that if everything was testified to which the defendants specify in their proffer, that that would not bring about any difference in the Supreme Court's opinion. They have had their day in court. They have made their proffer. This court has passed upon it. This court said that the proffer does not present any issue.

Judge Garrett: Quite so. That expression was limited, though, to the proffer of proof that came within what we conceived to be the findings of the Supreme Court of the United States; and, the findings with regard to the other matters, we regarded, Judge Jackson and myself at least did, and I don't think there was any great disagreement between Judge Stephens and I, we understand each other's [fol. 372] opinions very well—there was no disagreement about that, but here, you are coming here and asking us to make findings of fact upon which the Supreme Court never passed. You are asking us to construe what the General Electric case means.

Mr. Knuff: No, Your Honor.

Judge Garrett: Well, I don't know whether you are or not, but that is the way it seems to me.

Mr. Knuff: We are only asking this court——

Judge Jackson: You are asking us to make findings of fact according to your interpretation of the Supreme Court decision, and the light of the subsequent proceedings that were had.

Mr. Knuff: That is right.

Judge Jackson: You are entitled to that thought, whether we agree with it or not.

Mr. Knuff: That is a different question.

I will now come to the findings of fact which we ask this court to make:

The defendants have objected to each of the findings that we have submitted, except findings 8, 10, 18, 19, 35, 39, 46, and 51. I do not intend to answer each objection that these defendants have made. The objections take up fifty pages in their memorandum.

Instead, I am going to do what the defendants have done. I am going to classify their objections, and I will answer [fol. 373] and point out that the classifications do not raise any legal questions that have any merit to them. To this end, I will adopt the same classifications that they make on pages 9 to 11 of their objections.

The first classification is that the findings are not supported by evidence, that many of the findings are not ultimate findings.

The first objection, that the findings are not supported by the evidence, of course covers every phase of the case and I will pass that for the moment.

Their second, that many of the findings are not ultimate findings implies at least that it is the duty of this court to find only the ultimate facts.

Now, whatever the rule may be in other circuits as to the duty of the court to find ultimate facts or to find both evidentiary facts and the ultimate facts, the rule in this circuit certainly is clear. The rule in this circuit is, as Judge Stephens pointed out in the Saginaw Broadcasting case, the rule in this circuit is that the court is required to find both evidentiary facts and the ultimate facts.

Their second classification of objections is that the findings are wholly outside of the court's determination of the issues decided on June 29th, 1918.

Now, I have discussed that and I am not going to go into it again.

[fol. 374] The third classification——

Chief Judge Stephens: You have confused me. By June 29th, you mean the date of our decision when we dismissed the government's complaint?

Mr. Knuff: That is right.

Judge Jackson: That is not 1918, 1948 you mean.

Mr. Knuff: What?

Judge Jackson: You said 1918.

Mr. Knuff: I meant 1948. I am going back thirty years, and I certainly did not mean to go back that far.

[fol. 375] Judge Jackson: All right.

Mr. Knuff: The third classification that the defendants make to the proposed findings is that they are inconsistent with and different from the former findings made by this court. Of course that is true. The Supreme Court passed upon many of the findings, and the Supreme Court said that those findings were wrong.

Now, this court on June 8, 1948, entered an order vacating the previous order of dismissal, and, it is our position that with that order vacating the previous order of dismissal, this Court set aside the former findings and conclusions. The defendants also say, under this classification, that this court is not required to find the facts differently than it found before.

Well, our answer to that is that the Supreme Court said you were. The Supreme Court said:

"As to others, a different result will be required."

And the Supreme Court then was talking about findings.

The fourth classification is, that since there are facts which are in dispute, it would be improper for this court to make any findings.

Well now, the use of their expression "facts which are in dispute" requires some examination to determine the sense in which they use that expression. It has never been our understanding that the basic facts in this case were in dispute. What was in dispute in this case is the inferences [fol. 376] which were to be drawn from those basic facts, the basic facts themselves being admitted.

Now, this same understanding that the Government had is the identical understanding of the judges who heard this case.

In the opinion in this case, reported in 67 Fed. Sup., Judge Stephens said:

> "The conflicting contentions of the parties on the issue of fact in the case are not as to what the evidence is, or as to what are the basic facts shown by evidence. The dispute is to the inferences to be drawn from the basic facts and therefore as to what the ultimate facts are."

Chief Judge Stephens: If I may, I find it necessary to defend my own opinion, Mr. Knuff, although the Supreme Court didn't leave much of it to defend.

I made that statement for this court in the opinion, in reference only to the evidence that we had then heard, not with respect to evidence which might be introduced by the defendant.

Mr. Knuff: That is right, that is right.

Since it is evident that the defendants are using facts in dispute as the equivalent of inferences in dispute, the answer to their contention should be fairly obvious. The correct rule is that where inferences alone are in dispute, the facts not being controverted, it is for the court to draw the inferences.

[fol. 377] Their fourth classification, rather, their fifth classification is that many of the findings are based on declarations and hence cannot be used as a basis for making findings. Well, the answer to that is that the Supreme Court said that the declarations are binding upon the others. That Court said that at page 388 of their opinion:

> "We are unable to accept, however, the ruling of the court that the declarations of each defendant were admissible only against the defendant making the declaration. A consideration of that point really involves the heart of the case, since the treatment of the declarations may vitally affect its outcome. Some may have doubts as to whether the agreements and bulletins alone are sufficient to establish conspiracy; but

the admissions of the separate declarations against all, greatly strengthens the Government's position. We think that industry-wise license agreements entered into, with knowledge on the part of the licensor and licensee, of the adherence of others, with the control over prices and methods of distribution through the agreements and the bulletins, were sufficient to establish the prima facie case of conspiracy. Each licensee, as is shown by the uncontradicted references, through their meetings and discussions that were preliminary to the execution of the licenses, could not have failed to be aware of the intention of United States Gypsum [fol. 378] and the other licensees to make arrangement for licenses industry-wide.

"The license agreements themselves, on their face, show this purpose. The licensor was to fix the minimum prices binding, both on itself and its licensees. The royalty was to be measured by a percentage of the value of all the gypsum products, patented or unpatented. The license could not be transferred without the licensor's consent, and the licensee opened its books of account to the licensor. The licensee was protected again competition with more favorable licenses and there was a cancelation clause for failure to live up to the agreement.

"Furthermore, the bulletins gave directions to the industry as to its prices and methods of operation in unmistakable terms. The District Court did not accept the foregoing facts as definite evidence of a conspiracy. To us, these facts are proof of a conspiracy. Certainly they are overwhelming evidence of a plan of the licensor and licensees to fix prices and regulate operations in the gypsum board industry."

Now, as I said previously, since there has not been introduced any other testimony in this case, other than what was before the Supreme Court, the prime facie nature of the declarations now becomes conclusive in character and these are binding upon the defendants and the court can make findings based upon them.

We have filed 165 proposed findings of fact. We feel

[fol. 379] that all of these findings are proper, and are supported by substantial evidence.

Findings 1 to 15 relate to the defendant and to the general nature of the gypsum industry. In these findings we set forth the names of the corporate defendants and individual defendants. We set forth the relative positions that each occupies in the industry, the interstate character and dollar volume of the trade involved; and also, a short statement of the methods used in the manufacture of gypsum board.

Findings 16 to 25 introduce the conspiracy in this case. These findings trace the development of the conspiracy during the years 1925 and 1926. Here, the facts relating to the early patent litigation are set forth and also the facts relating to the early license negotiations between Mr. Blagden and Mr. Avery, and the activities of Griswold.

Findings 26 to 28 carry the same conspiracy over through the year 1927. During this period, as the findings indicate, Blagden and Griswold continued their activities to induce non-licensee manufacturers to become licensees. During this period Griswold was in contact with Avery, and he advised Mr. Avery of the progress that was being made.

Findings 29 to 35 develop the same conspiracy during 1928. As these findings indicate, Certain-teed acquired the assets of Beaver. Certain-teed refused to take over the license agreement which Beaver had entered into in 1926 with U.S.G., and U.S.G. filed suit to compel Certain-teed to [fol. 380] assume this license.

These findings also point out that Holland, a new-comer to the industry, became active in promoting industry-wide license agreements.

These findings also develop the facts relating to further activities on the part of Griswold, Blagden and Mr. Avery.

Findings 36 to 53 trace the development of the same conspiracy during 1929.

Early in 1929, there was renewed activity for industry-wide license agreements which culminated in the meeting at the Palmer House, in Chicago, on May 21 through May 23, 1929.

These findings also trace the activities of Holland during this period, as well as the activities of Baker and Mr. Kling.

What happened at the meeting at the Palmer House in May, 1929, is developed by these findings. Following the signing of the licenses in May, 1929, the industry met, during the summer and fall of that year, and traded out the terms of the November, 1929 licenses. These facts are stated in this series of findings.

Now note, please, findings 1 to 53 identify the defendants; describe the industry and trace the development of the industry,—trace the development of the conspiracy from its inception in the middle 1920's to, and including the execution of the November, 1929, licenses.

In formulating these findings, we have followed very, [fol. 381] very closely the language used by the Supreme Court, tracing the conspiracy down to 1929.

In our memorandum, we break down the findings, as I have just broken them down. Then, we set forth what the Supreme Court said about them.

I don't think that I can add anything more to what is already in the memorandum on this point, and I am not going to try. We have set forth the identical language used by the Supreme Court, and I think that this court, if it will compare the findings, 1 to 53, with the language used by the Supreme Court, this court will find that we have followed, very, very closely, just what the Supreme Court said.

Findings 54 to 65 relate to the Newark and Celotex board licenses; the metallized board licenses, and the perforated lath licenses. Other than refering to the fact that U.S.G. offered the industry licenses on metallized board and perforated lath, the Supreme Court did not discuss those topics in its opinion.

In our memorandum in support of the proposed findings, we set forth the facts relating to these licenses. These facts, as we set them forth in our memorandum, are not, and cannot be denied. We think that we have drawn the correct inferences from those facts, and in our memorandum we set out everything that we think is material, surrounding the execution of the metallized board and the perforated lath licenses, and we will allow our memoran- [fol. 382] dum to speak for us.

Now, findings 66 to 161 set forth what was done in the industry after the licenses were entered into.

These findings detail the operation of the conspiracy, and how the license agreements were used to organize the industry and stabilize prices.

I want to break those findings down just a little bit further.

Findings 66 to 72 relate to the raising of prices on first quality board. The Supreme Court said that such prices were raised. What the Supreme Court said is set forth on page 51 of our memorandum.

Findings 73 to 86 relate to the standardization of product, the elimination of seconds, the elimination of Number Two board, and the elimination of open-edge board. The Supreme Court held that the product was standardized, and what the Supreme Court said in that connection is set forth on pages 51 to 54 of our memorandum.

Findings 87 to 91 relate to the standardization of board sizes, and standardization of packaging board for shipment. The Supreme Court held that there was such a standardization. That is set forth in our memorandum on page 52.

Findings 92 to 96 relate to the stabilization of prices of unpatented gypsum products, or rather, to the attempt to stabilize prices on unpatented gypsum products. The [fol. 383] Supreme Court held that the defendants did attempt to stabilize the price of unpatented gypsum products and that is set forth in our memorandum at page 55 to 56.

Findings 97 to 105 relate to the elimination of jobbers. The Supreme Court held that jobbers were eliminated, and what the Supreme Court said is set forth on page 56 of our memorandum.

Findings 106 to 119, I am going to pass by those for a moment.

Findings 120 to 161 relate to the regimentation within the industry. Included in these findings are first, those relating to trucking regulations. The facts are set forth in our memorandum at pages 74 to 89. The findings related to them are Findings 120 to 129.

The second class of findings relating to regimentation

within the industry are those relating to Board Survey. Those are Findings 130 to 133.

The third class of findings relating to regimentation of industry are those relating to licensee meetings. Those are Findings 134 to 155.

The fourth class of findings relating to regimentation of the industry, are those relating to the inspection of the licensees' books, and those are set forth in Findings 156 to 161.

The Supreme Court has said that the industry was completely regimented. What the Supreme Court said on [fol. 384] these topics, that is, Findings 120 to 161, are set forth in our memorandum at pages 74 to 89.

Now, turning back to the findings that I have just passed over, that is, Findings 106 to 119, I want to take up Findings 106 to 114.

These findings relate to the resale prices of manufacturing distributors. The Supreme Court did not pass upon this branch of the case, although the Court did refer to the fact that this question was in the case. The Supreme Court said, "As to other findings, a different result will be required."

We have set forth in our memorandum what happened in the industry, relating to the attempt to fix resale prices, and I am going to allow what we say in our memorandum to speak for us. That is set forth at pages 58 to 71.

Now, that brings me to Findings 115 to 119, and these findings relate to the exclusion of the Cardiff Gypsum Company from the industry.

I want to discuss, briefly, the exclusion of this manufacturer, or this distributor, or this company——

Judge Garrett: Did the Supreme Court make any reference to that?

Mr. Knuff: No, sir, Your Honor, they did not.

Judge Jackson: Is that the producer on the Pacific Coast?

Mr. Knuff: No, sir. The Cardiff Gypsum Company has a plant located at Fort Dodge, Iowa.

[fol. 385] Judge Jackson: Go ahead, I was just mistaken. I was thinking of something else that occurred during the trial.

Mr. Knuff: Cardiff Gypsum Company has a plant located at Fort Dodge, Iowa, and its products are sold rather extensively throughout the Middle West. It manufactures plaster and other related gypsum products, but it never manufactured gypsum board.

Early in 1933, Mr. Sensibar contacted Mr. Holland, of Universal, and he asked Mr. Holland to sell Cardiff some board at a discount. According to Mr. Sensibar, Holland told him that Cardiff had the reputation, as a price cutter on plaster, and he doubted, under those circumstances, whether U.S.G. would give their consent to sell at a discount.

While Sensibar was negotiating with Holland to purchase board, he also saw Mr. Henning of U.S.G., and he told Mr. Henning that he was trying to buy board from Universal, and he hoped that U.S.G. would give its consent to purchase that board.

Henning, according to Sensibar, told him exactly the same thing that Holland told him, that is, that there was an impression in the industry that Cardiff was a price-cutter and that this was not a very propitious time in which to attempt to buy board.

At any rate, U.S.G. did not give their consent to Universal, and Cardiff was not able to buy board from Universal.

In the fall of that year, Sensibar went to Port Clinton, and took up with Arthur Black, the sales manager of American Gypsum Company, whether or not American [fol. 386] would sell board to Cardiff at a discount.

Judge Garrett: Of course, I know that is part of the record, I believe it was admitted upon the theory of finding out something about the plaster price.

Mr. Knuff: That is right.

Judge Garrett: That is part of the record, but is that referred to at all in the decision of the Supreme Court?

Mr. Knuff: No, Your Honor, it is not.

Judge Garrett: You are just arguing it there, in support of the general allegations of the Supreme Court, is that it?

Mr. Knuff: That is right.

Judge Garrett: All right.

Mr. Knuff: That is right, sir, and I say that the findings should be made on this branch of the case for the addi-

tional reason that in their proffer of proof, the defendants do not undertake to say, do not undertake to deny the testimony of Mr. Sensibar; so, as far as what is before the court is concerned now, you have before the court, on this branch of the case, the uncontradicted testimony of an unimpeached witness.

They do not offer to prove that the facts are differently than were testified to by Mr. Sensibar.

Judge Garrett: It was admitted, however, for a particular purpose.

Mr. Knuff: That is right.

Judge Garrett: And limited to that purpose.

Mr. Knuff: And we are not asking the court to change [fol. 387] its ruling on that. We are going to accept that ruling. We are not asking the court to change its ruling. It was admitted for the purpose of showing plaster prices were fixed.

Now, what the court said in that connection is set forth on page 57 of the defendants' memorandum. On page 57 of their memorandum they set forth exactly what was said at that time.

I think it is page 57, I could be wrong. No, it is page 57. Here is what is said, there:

> "All of us are agreed, all the judges, that they, that they are not admissible under paragraph 45(e). Judge Jackson and myself are of the view that they are admissible under paragraph 45(c) where it is charged that the defendants concertedly raised, maintained and stabilized the general level of prices for plaster and miscellaneous gypsum products."

Then, the court went on to say the theory upon which they were admitting this class of evidence.

So, as I say, we are not asking the court to change its ruling. We are going to accept that ruling, but we are calling the attention of the court to the fact that this evidence is not denied. They don't make any offer to show differently.

Judge Garrett: That was not included in the proffer of proof?

Mr. Knuff: No, sir, Your Honor. There is nothing in [fol. 388] their proffer of proof about it.

Judge Garrett: Was there anything about this in the pleadings?

Mr. Knuff: Sir?

Judge Garrett: Was there anything about this in the pleadings?

Mr. Knuff: You mean specifically, that we mentioned Cardiff Gypsum Company?

Judge Garrett: Yes.

Mr. Knuff: No, we did not specifically mention the Cardiff Gypsum Company.

Judge Garrett: Did you mention anything that would cover a situation such as that to which he testified?

Mr. Knuff: Yes, Your Honor. We mentioned two things that would cover that. We mentioned, first, that under paragraph 45(e) of the complaint, manufacturing distributors were excluded from the market; and, under paragraph 45(c)—let me restate what we said under paragraph 45(e):

Under paragraph 45(e) we charged that the defendants attempted to fix the resale prices of manufacturing distributors.

Then, under 45(c) of the complaint, we said that the defendants concertedly attempted to stabilize the price of plaster and other unpatented products.

Of course we offered it on both theories. The court received it on the theory it might show an attempt on [fol. 389] the part of defendants to stabilize plaster prices.

After Sensibar made his first trip to see Black, he went back there to see him a second time, and the second time Black told him that either U.S.G. had not given the consent, or else that he, Black, had refused, or had failed to ask U.S.G. for their consent; but, at any rate, some five or six weeks later Sensibar saw Black at a Gypsum association meeting, and at that time Sensibar was advised that U.S.G. refused to give their consent.

Then, in 1934, Sensibar contacted Certain-teed. He saw Mr. Henley at that time, saw him several times. Henley told him that he, Henley, had received a constant stream of complaints about Cardiff cutting the price on plaster. Sensibar explained the pricing policies of Cardiff to Henley, and when he went back, after contacting him at least on more than one occasion, Henley finally told him that U.S.G. would not give their consent.

Judge Garrett: As I understand you right now, you think that although the Supreme Court made no reference to this testimony, that nevertheless—and although it was admitted for a particular purpose,—nevertheless it should be considered for other purposes?

Mr. Knuff: Oh, no, Your Honor.

Judge Garrett: What do you mean, then?

Mr. Knuff: Let's take a look at Findings 115 to 119 and [fol. 390] see what we say there.

Judge Garrett: Perhaps I am detaining you unnecessarily, but I don't quite get your point.

Judge Jackson: You think it should be included in the findings of fact, because it is uncontradicted in the record?

Mr. Knuff: That is right.

Here is what Finding 115 says:

> "The Cardiff Gypsum Company has, for many years, owned and operated gypsum properties in the vicinity of Fort Dodge, Iowa."

Judge Garrett: Well, that is our finding of fact?

Mr. Knuff: No, this court before didn't make any findings on Cardiff Gypsum Company at all. These are the proposed findings that we are asking this court to make.

Judge Garrett: I see.

Mr. Knuff: Proposed Finding 115 says:

> "The Cardiff Gypsum Company has, for many years, owned and operated gypsum properties in the vicinity of Fort Dodge, Iowa, and operates a plaster mill at that place. Its plaster and other related products are widely sold throughout the Middle West. The company, at no time, manufactured gypsum board or lath. Its position in the gypsum industry has thus long been substantially that of Oakfield Gypsum Products Corporation, Connecticut Adamant Plaster Company, and [fol. 391] other manufacturing distributors named in the bill of particulars to the complaint."

Proposed Finding 116 states as follows:

> "Beginning in 1933, and continuing down through most of October, 1939, Sensibar, of Cardiff Gypsum

Company, contacted Universal, American, Certain-teed, U.S.G., National, and Ebsary, for the purpose of purchasing board from them at a discount. Each of the above companies, except U.S.G., signified its willingness to sell board to Cardiff at a discount, providing U.S.G. would give its consent to do so."

Proposed Finding 117:

"During this same period, U.S.G., and the above licensees, sold board at a discount to other plaster manufacturers, and in the case of the licensees, U.S.G. consented to the sale thereof."

Proposed Finding 118:

"During this same period U.S.G. refused to sell board at a discount to Cardiff and also refused to give its consent to its licensees to do so. Without U.S.G.'s consent, the licensees refused to sell Cardiff. Cardiff has never been able to purchase board at a discount from U.S.G. or its licensees."

Proposed Finding 119:

"The defendants have excluded Cardiff from the [fol. 392] board market, and this exclusion constitutes an unreasonable and undue restraint and monopolization of trade."

We are not asking this court to make any findings contrary to the theory upon which this evidence was admitted.

Chief Judge Stephens: The court will recess now until two o'clock.

Before we recess, may I ask the defendants if they have an extra copy with them of their proffer of proof?

Mr. Knuff: I have one here.

Chief Judge Stephens: I should have brought mine with me here. I may be able to locate it during the noon hour, but if not, I would like to borrow one.

I do not want to deprive counsel, unless they have an extra copy——

Mr. Connelly: I have an extra one.

Chief Judge Stephens: Is that an extra copy?

Mr. Connelly: Yes, sir.

Chief Judge Stephens: Proceed, Mr. Bailiff, and announce the recess.

The Marshal: This honorable court stands recessed until two o'clock.

(Whereupon, at 12:30 p.m., the court stood in recess until 2:00 p.m. that same day.)

[fol. 393] AFTERNOON SESSION

2:00 p.m.

Chief Judge Stephens: You may proceed, Mr. Knuff.

OPENING ARGUMENT ON BEHALF OF THE PLAINTIFF (Resumed)

By Mr. Knuff:

Mr. Knuff: Your Honors, when the court rose, I was discussing the exclusion of Cardiff Gypsum Company as a purchaser for board. I will not say anything further in that connection and will pass immedately to Finding 162. Finding 162 is a summary of the effects of all the previous findings from Finding 16 to 161. This finding states that the evidence establishes that the defendants associated themselves in a plan to blanket the gypsum board industry under patent licenses and stabilized prices, as charged in the complaint; that since the execution of the last of the 1929 licenses, competition at the price and quality and the service level has been eliminated in the industry.

This court previously found in Finding 118 that the evidence did not establish such a plan. Error was assigned to that finding. The Supreme Court sustained that assignment of error.

The Supreme Court said that despite the opportunity of the trial court to appraise the credibility of witnesses, that court could not rule otherwise than that Finding 118 was clearly erroneous. They said that at page 396 of the opinion.

The Government's position is that if Finding 118 was [fol. 394] clearly erroneous, obviously, Finding 162 must be

correct. It is simply the converse of what had previously been found by this court.

Findings 163 to 165 relate to acquisitions within the industry. We have set forth in our brief those acquisitions in the industry, and in the interest of moving this case along, I am going to ask the court to regard our brief as our argument on that position.

Judge Garrett: Those embraced the argument that if one company buys another, that constitutes, under circumstances related, the violation of the anti-trust laws?

Mr. Knuff: Yes, I would say that that represents the correct position that we will take here. Findings 163 to 165, set forth the fact that all the manufacturing facilities for board were concentrated in the hands of a few manufacturers and that this concentration of productive capacity made concerted action far less difficult to attain than it would otherwise have been; that the attitude of the present defendants has been that of mutual cooperation to suppress competition in order to organize the gypsum industry and stabilize prices; and that unless restrained from going further with those acquisitions, the defendants will acquire other companies in the future.

At page 712 of the Federal Trade Commission v. The Cement Institute, the Supreme Court said:

> [fol. 395] "When the Commission rendered its decision, there were about eighty cement manufacturing companies in the United States operating about one hundred fifty mills. Ten companies controlled more than half of the mills, and there were substantial corporate affiliations among many of the others. This concentration of productive capacity made concerted action far less difficult than it would otherwise have been."

Now, since in the Cement Institute case ten companies controlled more than half of the productive capacity, we take the position here that our case is a great deal stronger than were the facts in the Cement case.

Here we have three companies—U. S. G., National, and Certain-teed—controlling eighty-nine percent of the productive capacity for board. Those same three companies

control more than fifty percent of the productive capacity for plaster.

Unless these defendants are restrained from what I like to think of as industrial cannibalism—that is, one company swallowing up another company—we are going to reach a stage very shortly where there will be maybe one or two companies controlling all of the productive capacity for board. Of course, the Sherman Act is aimed at monopoly.

We have proposed seventeen conclusions which we think are proper for this court to make. The defendants have objected to each of the conclusions except the first one, [fol. 396] which relates to the jurisdiction of the court.

In their general objections to the conclusions, the defendants object to these conclusions for two reasons: First, they say that the proposed conclusions go beyond the scope of the determination of the issue, and, second, they say that the Government is not entitled to any conclusion with respect to the monopoly charge.

Their second objection—that is, that we are not entitled to any conclusions respecting monopoly—seems to me to illustrate the attitude that these defendants have taken. These defendants absolutely refuse to recognize the fact that the Supreme Court has once passed upon this case. The Supreme Court has said that the defendants have monopolized the gypsum board industry.

Here is what the Supreme Court said about that. It is at page 400 of the Supreme Court's opinion:

These licenses and bulletins show plainly——

Judge Jackson: Did you say page 400?

Mr. Knuff: Page 400 of the Supreme Court's opinion.

Judge Jackson: I did not know it was that long.

Mr. Knuff: It is reported in 333, beginning at 364. It is at page 400 of 333.

Judge Jackson: Do you know what page of the slip copy it is?

Mr. Connelly: Page 34.

[fol. 397] Judge Jackson: I have it right here.

Mr. Knuff: "These licenses and bulletins show plainly a conspiracy to violate the Sherman Act. Price fixing of this type offends. It is well-settled that price fixing without

authorizing statutes is illegal per se. Patents grant no privilege to their owners of organizing the use of those patents to monopolize an industry through price control, through royalties for the patents drawn from patent-free industry products, and through regulation of distribution. Here patents have been put to such uses as to collide with the Sherman Act's protection of the public from evil consequences."

I will omit the cases that they cite there. To continue:

> "The defendants did undertake to control prices and distribution in gypsum board. They did utilize an agency, Board Survey, Inc., to make this control effective. Such facts, together with other indicia of intent to monopolize the gypsum board industry, hereinbefore detailed as to the agreements, bulletins, and declarations, convince us that the defendants violated the Sherman Act."

We say that is an express ruling by the Supreme Court that these defendants have violated Section 2 of the Sherman Act.

The remaining objections that the defendants make to the conclusions are set forth in our brief. We have set forth first the conclusion that we make, second the objection to it, and then we point out the cases which support our [fol. 398] legal proposition. Those cases are, first, the present case on the appeal in the Supreme Court; second, the Line Material case—we quote from the Line Material case—we also quote from the American Tobacco case; we also quote from Swift v. U. S., 196 U. S.; we also quote from the International Salt case.

Every proposition that we ask this court to conclude is based upon what the Supreme Court has said in this case, in the related case of the Line Material, or in some other cases, and all those cases are set forth in our memorandum.

I am going to let our memorandum speak for itself, but I do want to ask this court to make one addition on page 105 of the brief, the memorandum that I have filed. It is at page 105, the last paragraph on that page, and it says, "The complaint, it will be noted . . ." Does the court see that?

In the third line from the bottom of the page, the next to the last word is the word "competition." After the word "competition," please insert a star or an asterisk or a foot note reference, whichever the court cares to do, and then in pencil insert at the bottom of the page:

> "Paragraph 84 of the complaint charges that U. S. G. acquired the starch patents for the purpose of fixing prices on board."

Judge Garrett: "The complaint charges that"—there is no finding, is there?

Mr. Knuff: Yes, we ask the court to make a finding of that.

[fol. 399] Judge Garrett: I mean there is no finding made by the Supreme Court.

Mr. Knuff: That comes back to our fundamental——

Judge Garrett: All right.

Mr. Knuff: I am not so sure that the Supreme Court did not make a finding on that, if Your Honor pleases. I want to say that when the Supreme Court in the Line Material case, at page 308, said, "By aggregating patents in one control, the holder of the patents cannot escape the prohibitions of the Sherman Act. See Standard Sanitary Manufacturing Company v. U. S., 226 U. S. 20; U. S. v. U. S. Gypsum Company, decided today," when the Supreme Court undertook to cite "U. S. v. U. S. Gypsum Company decided today," as authority for the proposition that patents cannot be aggregated in one control——

Judge Garrett: 387, did you say?

Mr. Knuff: 308.

Judge Garrett: 308?

Mr. Knuff: 308 of Line Material.

Judge Garrett: That cross reference, of course, there is a little confusing, but there is no use taking up any more time about it. Of course, in that case, that Line Material Company case, there was a concurrence by one of the justices, who wanted to wipe out the whole Electric case. I believe that is right.

Judge Jackson: Justice Douglas.

Mr. Knuff: Four of them wanted to overrule the General [fol. 400] Electric case and four of them were opposed to

overruling the General Electric case. So the General Electric case, while it was not buried in the Line Material decision, I think the net effect of the Line Material decision was to give it quite a generous dose of embalming fluid, so that I do not suppose the case will cause us very much trouble in the future. They did not, it is true, overrule it.

Judge Garrett: And in this case, the Gypsum case, which came just a bit later——

Mr. Knuff: Argued at the same time, the same day.

Judge Garrett: Argued at the same time and decided at the same time, but in the Gypsum case nobody dissented, did they?

Mr. Knuff: Unanimous opinion.

Judge Garrett: Unanimous opinion because the court had accepted what had been laid down in the Line Material case.

Mr. Knuff: In the Gypsum case the court said that the General Electric case did not apply. In the Gypsum case the Supreme Court said that the General Electric case did not apply to our situation.

That brings me now to the consideration of the proposed decree. The decree in this case was drafted to accomplish just two purposes, and only two purposes. First, to put an end to the specific illegal practices which have plagued the gypsum industry for twenty years, and, second, to restore to that industry a measure of competition, which [fol. 401] been absent from it so long.

To use the language of Mr. Justice Jackson in the International Salt case, "If this decree accomplishes less than both of those purposes, the Government will have won a lawsuit, but will have lost a cause."

We recognize, of course, that the end to be served by any equity decree is not the punishment for past transgressions. Certainly, equity courts should not impose penalties in the guise of preventing future violations.

As we will point out subsequently, none of the provisions of this decree do impose penalties. All of the provisions of this decree, we believe, are reasonably necessary if we are to accomplish the purposes of the Sherman Act.

In passing upon this decree, the court should keep in mind certain well-know- principles of equity. First, that in case

there are any doubts concerning the provisions of the decree, those doubts should be resolved in favor of the plaintiff.

I think Judge Stephens will recognize the case which so held as Local 167 v. U. S., because Judge Stephens argued that case in the Supreme Court, and the Supreme Court so held in Local 167.

Second, the decree may prohibit acts which in another setting would be unobjectionable.

Third, the provisions of this decree are not necessarily limited to enjoining in the future, acts of the identical nature which were committed in the past. In other words, [fol. 402] this decree can enjoin other acts, other related acts, although there is no evidence in the case that those acts were committed.

The defendants have objected to each section of the proposed decree, except Section No. 1, which deals with the jurisdiction of the court. Section 2 of the proposed decree deals with the definitions. We define "gypsum products," "said defendants," and so forth. We will allow the brief that we have filed to speak for our position on Section 2.

Section 3 of the proposed decree states that the defendants have combined and conspired to restrain trade in gypsum products and have monopolized, combined, and conspired to monopolize trade in gypsum board in violation of Sections 1 and 2 of the Sherman Act.

Judge Garrett: You left out the word "patented."

Mr. Knuff: I left out the word "patented" advisedly, because there is no evidence in this case that there was ever any board made under the terms of any patent. There is not a single witness who testified that any of the board that was made came within the provisions of either the Utzman patent, the Haggerty patent, or the Roos bubble patent.

There was some loose talk, I grant you, that starch was used to increase adhesion between the liner and the core, but not a single witness testified that the starch that was used conformed to the teachings of Haggerty; not a single witness—and I challenge the defendants, I hope that when [fol. 403] the defendants answer me, they will point out in this record any testimony showing that patented board was

ever manufactured. There is not a bit of testimony on that in this case. There is a contention, Mr. Bromley always contended that the only price that was fixed was the price on patented board, but there is no evidence that these defendants ever made board under the patents.

The only way I can prove that is correct is to assert it because I am trying to prove a negative. If the defendants say I am wrong on that position, then the defendants can certainly quote from the transcript, if it is there, the evidence which they rely upon. I am sure that they cannot find it in the transcript.

With reference to section 3, defendants U. S. G. and those defendants who have adopted the position taken by U. S. G. object to this section for the following reasons:

That the section fails to set forth in what respect the defendants have violated the Sherman Act, and, second, that under Section 2 the decree should be limited to patent board, and, third, that there was not any intent to monopolize under Section 2.

Well, I have already answered their objection as to patented board. Their first objection, that the section fails to set forth in what respect the violation has been committed, our answer to that is that the findings and the conclusions set forth in some detail the circumstances surrounding the violation of Section 1.

[fol. 404] We know of no principle of law that would require us to again set forth what we have set forth in the proposed findings of fact; nor do the defendants cite any cases in support of their proposition that we should. They simply repeat their former inaccurate position that this section goes beyond the scope of the court's determination upon the issue on the motion for summary judgment.

Their objection, that there was not any intent to violate Section 2, of course, is readily answered by the fact that when you have a per se violation of the Sherman Act, which you have in this case, then intent can make no difference. The Supreme Court has said that in Standard Sanitary, they have said that in the Griffith case and they have said that in numerous other cases, and in the cases where they have said that, we have set forth those cases in our memorandum.

[fol. 405] Section 4 of the proposed decree deals with the applicability of the decree. Under this section it is stated that the provisions applicable to any defendant shall apply to such defendant, its officers, directors, agents, and so forth.

Now, all the defendants object to this section of the decree and say that its provisions should be limited so as to bind only the corporate defendants; that the individual defendants should not be included.

U. S. G. says it is in appropriate in a case like this to enjoint the individual defendants who are not parties to the license agreement.

Now, I say that statement is inaccurate because every individual defendant that we have enjoined in this case, Hartley alone excepted, was a party to one or more of the license agreements, and we have set forth those license agreements to which they were parties in our memorandum.

Judge Garrett: Were they parties as officials or individuals?

Mr. Knuff: They were parties as officials, but parties nonetheless.

Judge Jackson: Those are the individuals, I assume, that are mentioned in the heading of the complaint as defendants.

Mr. Knuff: That is right. On the appeal of this case the Supreme Court did not sustain this court as to the individuals and say that this court was correct in dismissing as [fol. 406] to the individuals.

The Supreme Court reversed as to both classes of defendants, and on the appeal of this case the individual defendants, which we have mentioned here, were made parties to that appeal.

So I say that it certainly would not be in the public interest to allow the individual defendants to escape the provisions of this decree. How can we reach Mr. Gloyd otherwise? The Texas Cement Plaster Company is not even a corporation. I do not know how we can reach Mr. Gloyd unless we name Mr. Gloyd. Certainly, every defendant that we have named here actively participated in either the formation of this conspiracy or in carrying it out. Mr. Baker,

Mr. Avery, Mr. Knode, Mr. Tomkins, Mr. Ebsary, Mr. Gloyd—they all actively participated in it.

Judge Garrett: With respect to Mr. Gloyd, just as a matter of information, it seems to me that I had heard in some way—that would not affect the legal situation here, but it seems to me I had heard in some way that Mr. Gloyd had no interest now in this case.

Mr. Knuff: That is correct.

Judge Garrett: He sold out ot somebody else.

Mr. Knuff: That is right, he did that, but I do not go along with your proposition that that would not——

Judge Garrett: I am not making any proposition, I am just asking.

Mr. Knuff: That is correct. While this court had under [fol. 407] consideration the defendants' motion to dismiss sometime during 1945, Celotex, without knowledge to the Government and without, as far as we know, knowledge to this court, proceeded to buy the assets of Texas.

Judge Garrett: Texas was Gloyd?

Mr. Knuff: Texas was Gloyd, Gloyd was Texas.

Judge Garrett: Not a corporation?

Mr. Knuff: Not a corporation, Your Honor.

Judge Garrett: Well, I reckon if he is out of business, he would not object to being enjoined.

Mr. Knuff: Apparently he does because he has joined with U. S. G. in their objections.

Judge Garrett: The legal right to enjoin him might be another question. Go ahead.

Mr. Knuff: Now, that brings me to Section 5 of the proposed decree. Under Section 5 of the proposed decree the defendants are enjoined from continuing the concerted illegal practices heretofore carried on by them. For instance, the defendants are here enjoined from concertedly standardizing the product, from concertedly eliminating jobbers, classifying dealers, adopting uniform delivery practices, using the basing point pricing system, and such other concerted activities which the findings clearly indicate have been practiced by these defendants in the past.

Generally speaking, what is here enjoined are those con- [fol. 408] certed activities which are more particularly set forth in paragraph 45(a) to (c) of the complaint.

Judge Jackson: I was just wondering about that subdivision 4 on page 5: To refrain from selling or distributing gypsum product to any purchaser or class of purchaser. Are you forbidding them to sell their products?

Mr. Knuff: Concertedly.

Judge Jackson: That goes back to a preface here, does it?

Mr. Knuff: I am coming to that in just a moment, Your Honor. I am coming to that right now.

Judge Jackson: All right: I see, "a planned course of action."

Mr. Knuff: It will be observed that the prohibiting paragraphs of Section 5—that is, paragraphs 1 to 10 inclusive—are modified and limited by a preamble.

Now, the wording of that preamble is the identical wording of the cease and desist order that the Federal Trade Commission entered in the Cement case. I say it is identical, with this exception:

In the Federal Trade Commission order the Federal Trade Commission used the words "cease and desist". In what we say here, we say that the defendants are "enjoined and restrained."

Now, the Supreme Court passed upon that preamble in its opinion in the Cement case, and here is what the Supreme Court said about it:

> [fol. 409] "As we read the order, all the separate prohibiting paragraphs and subparagraphs, which need not here be set out, are modified and limited by a preamble. This preamble directs that all the respondents do forthwith cease and desist from entering into, continuing, cooperating in, or carrying out any planned common course of action, understanding or agreement, combination or conspiracy, between and among, any two or more of said respondents or between any one or more of said respondents and others not parties hereto to do or perform any of the following things."

Then follows the prohibitory sentences:

> "It is thus apparent", said Justice Black, "that the order by its terms is directed solely at concerted, not individual activity on the part of the defendants. Re-

spondents have objected to the phrase 'planned common course of action' in the preamble. The objection is two-fold: First, that it adds nothing to the words that immediately follow it, and, second, that if it does add anything, the Commission should be required to state what that novel phrase means in this order and what it adds to the four words.

"It seems quite clear to us what the phrase means. It is merely an emphatic statement that the Commission is prohibiting concerted action, planned, concerted action. The Commission chose a phrase perhaps more [fol. 410] readily understood by businessmen than the accompanying legal words of like import.

"Then there is objection to that phrase in the preamble would prevent respondents or any of them from doing the prohibited things with others not parties hereto.

"We see no merit in this objection. The Commission has found that the cement producers have from time to time secured the aid of others outside the industry who are not parties to this proceeding in carrying out their program for preserving the basing point pricing system as an instrument to suppress competition.

"Moreover, there will very likely be changes in the present ownership of cement mills and the construction of new mills in the future may be reasonably anticipated.

"In view of these facts, the Commission was authorized to make its order broad enough effectively to restrain respondents from combining with others as well as among themselves."

Judge Garrett: Now, to what phase of this case does that rule apply?

Mr. Knuff: That rule applies to the preamble, to Section 5 of this case. We have quoted, we have set forth in the preamble of Section 5——

Judge Garrett: I am not talking about what is in your complaint.

[fol. 411] Mr. Knuff: I am not talking about the complaint. I am talking about the decree, Your Honor.

In our decree, under Section 5 we set forth verbatim what the Federal Trade Commission did in its cease and desist order, and then we follow that by enumerating the concerted illegal activities which are enjoined.

Judge Garrett: I know, but what I am trying to get at is: What are the facts in this case to which the facts in that case are applicable?

Mr. Knuff: I am coming to that right now.

Judge Garrett: Good.

Mr. Knuff: Subparagraph 1 of Section 5 enjoins and restrains the defendants from concertedly fixing prices, terms, and condition of sale at which gypsum products shall be sold or resold.

Now, the charges in the complaint directly relating to that are paragraphs 45(a), 45(c), and 45(e). The findings supporting those charges are those which we set forth in the memorandum. I am going to go into all those findings.

The Supreme Court said, "Price fixing of this type offends." In subparagraph 1 we are enjoining the defendants from concertedly fixing prices, terms, and conditions of sale.

This is a price-fixing case. We are enjoining the defendants from further fixing prices in this industry.

Judge Garrett: By reason of their base for freight rates [fol. 412] or something, was it not? That is what was in this Cement case, was it not?

Mr. Knuff: The Cement case was a complaint instituted——

Judge Garrett: It is the old Pittsburgh-plus doctrine, is it not?

Mr. Knuff: That came into the case, but it came in as a corollary to the main question involved. The main question involved was price fixing.

The first count in the Federal Trade Commission complaint said that the defendants suppressed competition in violation of Section 5 of the Federal Trade Commission Act. They said they did it as a result of a conspiracy.

Count two of the Federal Trade Commission case carried over the combination and conspiracy charge of the first count and said that the defendants, in violation of Section 2 of the Clayton Act, discriminated in price.

Under count one you had a price-fixing case, which was made effective by the basing point system. In our case you had a price-fixing case, which was made effective by use of patent licenses plus the basing point.

Do I make myself clear on that, Your Honor?

Judge Garrett: Yes, I understand your position, I think.

Mr. Knuff: Subparagraphs 2 and 3 of this section of the proposed decree present related phases of a common problem. Subparagraph 2 enjoins the defendants from taking [fol. 413] affirmative action to produce uniform kinds of board or from adopting uniform methods of manufacturing, selling, or distributing those same products. Subparagraph 3 enjoins the defendants from resorting to negative means to accomplish the same ends.

The defendants in this case, as the evidence showed, undertook to standardize board in order to protect the price. They eliminated No. 2 board, they eliminated seconds. They also eliminated open-edge board.

These subparagraphs are intended to take care of just that situation. Now, it will be noted, if Your Honors please, that the prohibited uniformity here only applies where the uniformity is brought about for the purpose of fixing prices.

In other words, if National wants to make a quarter-inch board, National can go ahead and make a quarter-inch board. We are not going to worry about that. If Ebsary wants to make a three-eighths board, Ebsary can go ahead and make three-eights-inch board. But National and Ebsary cannot get together and say, "We will make only three-eighths-inch board, and we will do this so that we can fix the prices."

Paragraphs 4 and 7 also are related. Under subparagraph 4 of this section of the proposed decree the defendants are enjoined from concertedly refraining from selling or distributing gypsum products to any purchaser or class of purchaser.

That is aimed directly at the jobber situation. The Supreme Court said that the defendants have concertedly [fol. 414] eliminated jobbers. That is under Section 4.

Then, under subparagraph 7, which is the affirmative phase of subparagraph 4, the defendants are enjoined from concertedly agreeing upon a basis for the selection or the

classification of customers. The finding in support of that is Finding 137.

You will recall that Mr. Lenci testified that at the meeting of June 6 there was brought up for discussion whether or not mail order houses were to be sold with an additional discount over and above that applying to dealers. There was also discussed at that meeting whether or not house wreckers or bathtub yards were to be sold as dealers.

Judge Garrett: Or the Government.

Mr. Knuff: Or the Government. Now, subparagraph 7 is aimed at preventing the defendants from classifying dealers as an aid to price control.

Subparagraphs 5 and 6 of this section of the proposed decree enjoin the defendants from concertedly using the basing point delivered price system in the sale of gypsum products.

Now, it has long been recognized that the use of this basing point pricing system is a handy instrument to bring about the elimination of any kind of price competition. The Supreme Court said that in the Cement case.

Now, the charge in the complaint directly involved is paragraph 45(a), fixing of prices.

On the appeal of this case the Supreme Court has said, at [fol. 415] page 382—and here is what they said:

> "The bulletins adopted a basing point system of pricing."

Mr. Lenci testified to the same effect. He testified to that at transcript page 4061, but, regardless of what Mr. Lenci said or regardless of what the Supreme Court said, it can be demonstrated by the facts of this case that it was the bulletins that did introduce this system into the industry. Note, please:

The essence of any basing point pricing system is that it always results in identical prices at any point in the United States. It always results in identical prices at any given point in the United States.

Now, the evidence in this case is clear, and the defendants throughout have insisted upon it, that prior to 1929, there was a price war in this industry. If there was a price war

in this industry, prices were not identical. If prices were not identical, the basing point system was not used.

In order to clarify, or, probably, in order to make sure that what was said in the opinion on the appeal of this case could not possibly be misconstrued, the Supreme Court, six weeks after they decided this case, also went out of its way to point out that they were condemning the basing point pricing system used in the gypsum industry, because in the Cement case here is what they said, and it appears at 721 of the Cement opinion:

> [fol. 416] "That the basing point price system may lend itself to industry-wide and anti-competitive practices is illustrated in the following, among other cases: U. S. v. U. S. Gypsum Company, et al., 333 U.S. 364; Sugar Institute v. United States, 297 U.S. 553."

Subparagraph 8 of this section of the proposed decree enjoins the defendants from concertedly agreeing upon or adhering to any method or practices in the selling, shipping, or distribution of gypsum board.

It will be recalled that when the Supreme Court said that the evidence in this case clearly shows that among the uniform practices adopted by the industry and followed since 1929 were the following—and I am quoting from 383 of the Supreme Court opinion:

> "Specified board sizes and minimum quantities were prescribed, licensees were forbidden to employ commission salesmen without the written consent of the licensor, regulations were prescribed as to the size, quantity and markings of gypsum board used for packaging shipments, granting of long-term credit was prohibited, sales on consignment were enjoined and licensees were forbidden to deliver board directly to the building site."

Now, the charge in the complaint directly relating to this subparagraph of this section is again paragraph 45(a), the price section. We are asking this court to enjoin these [fol. 417] defendants from adopting uniform practices of selling, shipping, or distributing gypsum products for the purpose and with the effect of fixing prices.

Subparagraph 9 of this section of the proposed decree enjoins the defendants from concertedly policing or investigating the prices and conditions of sale at which gypsum products are sold.

Now, again, the charge in the complaint directly relating to that is paragraph 45(a) of the complaint. The Supreme Court passed upon this phase of the case, and the Supreme Court said:

> "The defendants did undertake to control prices and distribution in gypsum board. They did utilize an agency, Board Survey, Inc., to make this control effective. Such facts, together with the other indicia of intent to monopolize the gypsum board industry, hereinbefore detailed as to the agreements, bulletins, and declarations, convince us that the defendants violated the Sherman Act."

Section 9 or, rather, subparagraph 10 of Section 5 of the proposed decree enjoins the defendants from holding meetings or conferences with the purpose or with the effect of aiding or maintaining uniform prices.

Now, Your Honors will recall the number of licensee meetings that were held, and what we are enjoining is the holding of those meetings for the purpose or with the effect of fixing prices. If they want to get together socially, if [fol. 418] they want to get together for the purpose of education, we have no objection at all to that, but we ask this court to enjoin them from holding meetings for the purpose and effect of fixing prices.

Judge Garrett: Where is that in this?

Chief Judge Stephens: Page 6 of the decree.

Mr. Knuff: That brings me to Section 6 of the proposed decree, and this is the section that provides for compulsory reasonable royalty licenses. It will be noted that Certainteed, Celotex, National, Ebsary, and Newark do not object to this section of the decree. The only objectors to this portion of the decree are Texas and U.S.G., and as Judge Garrett said sometime ago, Texas is no longer in business.

In fact, Mr. Finck, in the objections which he filed on behalf of National, takes the position that he approves of the

Government's position insofar as this court should direct U.S.G. to grant compulsory reasonable royalty licenses.

Subparagraph 1 of this section directs U.S.G. to grant to any applicant a non-exclusive license to make, use, and vend on a reasonable, non-discriminatory royalty basis the inventions covered by the patents now owned or hereafter acquired by U.S.G. relating to gypsum products or their processes or their methods of manufacture or their uses.

As I have tried to point out in my discussion under Sec- [fol. 419] tion 5 of this decree, Section 5 enjoins past misconduct.

Chief Judge Stephens: Wait just a moment. Judge Garrett has misplaced his copy of the proposed decree.

Mr. Knuff: Since I assume we are going to take a recess very shortly, I can get a copy in five minutes from the Department.

Chief Judge Stephens: We will take a recess at 3:15.

Judge Jackson: I have an extra copy here.

Chief Judge Stephens: Proceed.

Mr. Knuff: As I was stating, Section 5 of the proposed decree relates to practices which are enjoined under the decree, practices which the defendants have, in the past, carried out.

Section 6, on the other hand, is intended to pry open to competition a market that has been closed by the defendants' illegal conduct.

As early as 1911 the Supreme Court laid down the rule, which district courts were to follow in formulating decrees in cases involving actual monopolization under the Sherman Act.

The Supreme Court said that in cases where conspirators have successfully restrained trade and monopolized an industry, a judgment which merely prohibited repetition of past misconduct would not accomplish the purposes of the Sherman Act.

That was said in the first Standard Oil case, and here is the exact language that Chief Justice White used. It appears at pages 77 and 78 of the 221st volume of U.S. Reports:

[fol. 420] "It may be conceded that ordinarily where it is found that acts have been done in violation of the

statute, adequate measure of relief would result from restraining the doing of such acts in the future. But in a case like this, where the condition which has been brought about in violation of the statute, in and of itself, is not only a continued attempt to monopolize, but also a monopolization, the duty to enforce the statute requires the application of broader and more controlling principles.

"As penalties which are not authorized by law may not be inflicted by judicial authority, it follows that to meet the situation with which we are confronted, the application of remedies two-fold in character becomes essential: First, to forbid the doing in the future of acts like those which we have found to have been done in the past which would be violative of the statute; second,"—and this is the important portion—"the exertion of such measure of relief as will effectually dissolve the combination found to exist in violation of the statute, and thus neutralize the extension and continually operating force which the possession of the power unlawfully obtained has brought and will continue to bring about."

The defendants' monopoly in this case has rested upon the misuse of a series of patents which ostensibly control the technology of the industry and gave to U.S.G. and the other defendants the power to fix prices and to exclude [fol. 421] others from the industry.

That power has been used. U.S.G. has fixed prices. The industry has excluded jobbers, and the industry has excluded Cardiff Gypsum Company.

So long as U.S.G. retains this power to exclude others, the force of that power cannot be broken simply by injunction. The very nature of that power enables U.S.G. to exercise it by inaction. No affirmative conduct is necessary.

Simply by the device of refusing to license, U.S.G. can bar new competition from coming into this industry. They now do not have to act concertedly. This conspiracy has a momentum that will carry on. All that U.S.G. has to do is to refuse to license, and no one can get into the industry.

U.S.G. intends to use that power.

Judge Garrett: Where does that carry us in patent law? I mean where would your proposed decree carry us?

You intend, I presume, by this proposal to compel a man who owns a patent to grant a license to anyone who may seek it upon terms fixed by whom?

Mr. Knuff: If the parties can agree—well, when you say "terms", do you mean royalty?

Judge Garrett: Well, whatever it may mean. It is how you handle the patent.

Mr. Knuff: I am coming to that discussion—I will discuss those points later on, and if I can delay the answer to Your [fol. 422] Honor's question until that time, I would rather do it.

Judge Garrett: Very well.

Mr. Knuff: U.S.G. in their proposed——

Chief Judge Stephens: I would like to hear your answer to that part of Judge Garrett's question which you did not postpone. He asked you if you contend that by this form of decree hereafter everyone having a patent would be compelled to grant a license to whoever applies. You did not reply to that.

Mr. Knuff: Will the reporter please state Judge Stephens question again?

Chief Judge Stephens: I will restate it.

Judge Garrett asked you if you intended by this decree, notwithstanding the patent laws as they now stand, to compel everyone who owns a patent to grant a license to whoever applies for it.

Mr. Knuff: No, to answer your question directly——

Chief Judge Stephens: It is not my question. It is Judge Garrett's question.

Mr. Knuff: To answer Judge Garrett's question, I do not contend that simply because somebody owns a patent, that he is compelled to issue reasonable royalty licenses.

I do contend that where an anti-trust defendant has misused a patent, such as we have in this case, then the court can, in order to dissipate the effects of that misuse, the court can in such circumstances order compulsory reasonable [fol. 423] royalty licenses, and I will cite as authority the decisions of the Supreme Court on that question in just a

moment. There have been two recent cases in the Supreme Court: Hartford Empire v. United States, reported in——

Chief Judge Stephens: In view of the fact that both the proposed decree submitted by the defendants and the proposed decree submitted by the Government include provisions for compulsory licenses, why is there any reason for arguing at such length?

Mr. Knuff: The defendants' proposed decree does not. Their proposed decree only grants to the defendants in this case a license. We want any person, whether a defendant in this case or not——

Chief Judge Stephens: I see. Judge Garrett's question was pertinent, therefore. You contend that U.S. Gypsum Company must from now on, because it has been a defendant in this case, grant a license to anyone in the world who manufactures gypsum products?

Mr. Knuff: That is our contention.

Chief Judge Stephens: All right.

Judge Garrett: Under the present patents or under any patents that may hereafter be acquired?

Mr. Knuff: Patents presently owned or patents subsequently applied for and issued. I will come to the cases on that.

The case of Hartford Empire, et al., v. United States, [fol. 424] reported 323 U.S., was an anti-trust civil action involving misuse of patents wherein Hartford Empire and the others were charged with conspiracy to restrain trade, with conspiracy to monopolize commerce, and with monopolizing commerce by acquiring patents covering the manufacture of glass-making machinery, and by excluding others from a fair opportunity to engage in such commerce.

Judge Garrett: I have interrupted you so ofter that I feel ashamed of myself for interrupting again, but will you permit me to ask this? Is there anything in the decision of the Supreme Court in this case or in any current case which justifies any such ruling as that?

Mr. Knuff: Yes, that is what I am coming to. It is as current as 1945. The Hartford Empire was decided in 1945. The National Lead case was decided in 1947, I think, although I am not sure. I will point out another case as late as October, 1948, a District Court case.

Judge Garrett: All right. I will try and keep quiet now.

Mr. Knuff: All right. I do not mind your interrupting me.

Paragraph 24 of Judge Kloeb's decree in the Hartford Empire case provided as follows.

Judge Jackson: Judge who?

Mr. Knuff: Judge Kloeb, K-l-o-e-b. He was the Judge who heard the Hartford Empire case in Ohio, and para-
[fol. 425] graph 24 of his final judgment enjoined the defendants—that is, Hartford Empire and the others—from engaging in the distribution of machinery used in glass manufacture or in the distribution of glassware in interstate commerce unless each filed with the court an agreement: "(a), to license, without royalty or charge of any kind, and for the life of all patents, any applicant to make any number of machines embodied in the invention covered by any patent or patent applications now owned or controlled by such defendants, (b), to license, at reasonable royalty, to be fixed by the court in case of dispute, any applicant to make any number of machines embodying inventions covered by patents hereafter applied for or owned or controlled by any defendant."

Justice Roberts, in passing upon that section of Judge Kloeb's decree, at page 417 of the Supreme Court opinion, said this:

> "Paragraph 24(a) of the decree should be modified to permit the reservation of reasonable royalties and its provisions should be restricted to feeders, formers, stackers, and lehrs.
>
> "Paragraph 24(b) should be limited in respect to future applications and resulting patents or patents hereafter acquired by assignment, to those covering feeders, formers, stackers, and lehrs."

The only thing that the Supreme Court did with Judge
[fol. 426] Kloeb's decree was to strike out under paragraph 24 the royalty-free provision and say that you must allow Hartford Empire reasonable royalties.

And then they limited it to feeders, stackers, and lehrs; but in both situations the Supreme Court said that Hartford

Empire was to grant to anyone a reasonable royalty license under patents then owned or thereafter acquired.

That decision has not been reversed.

Chief Judge Stephens: We will take a 15 minute recess at the present time.

(A short recess was taken.)

[fol. 427] Mr. Knuff: When the court rose, I was just coming to the decision in the case of U.S. v. National Lead Company, reported in 332 U.S. at 319.

That case, like this one, was also a civil anti-trust suit involving misuse of patents to control and regulate the manufacture and sale of titanium pigment and compound in the United States.

Judge Rifkind, in formulating the decree in that case, put in Clause 7, and that clause provides as follows:

> "Each of the defendants is ordered to grant to any applicant therefore, including any defendant or co-conspirator, a non-exclusive license under any or all of the patents as herein defined at uniform reasonable royalty."

The Supreme Court affirmed the action of Judge Rifkind.

Now, I want to call Your Honors' attention to the decree that was entered in the District Court of the United States for the Eastern District of Wisconsin, in the companion case to this one in the Supreme Court,—that is the Line Material case.

On October the 19th, 1948 the District Court there entered a final judgment ordering the defendants to grant reasonable royalty licenses and the action taken at that time was not, in any sense, a consent decree, because the provisions of the decree which I had placed on the bench for [fol. 428] the use of Your Honors, clearly indicate that the judgment was entered after argument.

Now, if the court will compare the provisions of Article 5 of the Line Material decree, with the provisions of Section 6 of the decree which we ask this court to adopt in this case, I think that you will find that, for all practical purposes, both decrees are identical.

Subparagraph 2 of this section enjoins the defendant

U.S.G. from transferring its patents, without making provision for the transferee to grant reasonable royalty licenses. That section was incorporated in the decree for the purpose of preventing U.S.G. from by-passing this decree by transferring to friendly hands the patents that they have, and then taking licenses back.

We don't say that U.S.G. will do that. On the contrary, we are not compelled to assume that they won't do it. The provisions, we feel, are reasonable and should be included in this decree.

Subparagraph 3 of this section enjoins the defendants from including in the decree, any conditions whatsoever except the following:

> "(a) The license may provide that it may not be transferred——"

Judge Jackson: Are you reading from the line——

Mr. Knuff: No, I am going on.

[fol. 429] Judge Jackson: I missed your page there, Mr. Knuff. What page is this particular portion of the decree you are reading from now, on—that you are arguing?

Mr. Knuff: In my——

Judge Jackson: No, no, in your proposed decree, that is what you are talking about now, is it not?

Mr. Knuff: Compulsory licenses.

Judge Jackson: On page 6?

Mr. Knuff: Yes, sir, beginning on page 6, and I have disposed of subparagraph 1; I have just finished talking about subparagraph 2; and I am now coming to discuss subparagraph 3.

Chief Judge Stephens: Mr. Knuff, you will have to hurry along. The day is passing.

Mr. Knuff: I realize that, sir.

Chief Judge Stephens: We cannot sit more than two days on this, and the defendants are entitled to a substantial period of time. There are a great many of them. We can't give it all to the Government.

Mr. Knuff: I realize that.

Subparagraph 3 provides the license may not be transferred; that the license may provide for reasonable royalties, provided the royalty reserve may not be imposed on

patent free products; that the license may provide for its cancellation in the event that the licensee fails to pay the royalty reserve; that the license must provide that the licensee may cancel the license on 30 days notice; and [fol. 430] further, that the license must provide for a more favored nation clause; and finally, it is provided in this subparagraph that the license may not contain any provision allowing U.S.G. to inspect the books of any licensee.

I will allow the brief which we have submitted to state our position as to that paragraph, as well as subparagraphs 4, 5, and 6, and that will bring me then to discuss the question of the cancellation of licenses.

I do not think the court is going to have too much trouble in disposing of this section of the decree, because, if I understand U.S.G.'s position correctly, they do not object to the cancellation of the existing licenses. All that they object to are the words that we use to express that idea.

Well, the reason we use the broad language that we did, was: We didn't know what licenses might have been entered into subsequent to the last hearing on this case.

If U.S.G. will certify to this court that they have not any additional licenses, other than the ones that they refer to in their objection; and, if each licensee, in turn, will certify that they have not any other licenses, other than what is set forth in the objection, we have no objection at all to having the provisions of this decree specify the licenses that U.S.G. mentions in their memorandum.

Section 8 of the proposed decree is the tying clause [fol. 431] relating to sales of other gypsum products. Under this section of the proposed decree, U.S.G. is enjoined, as well as are the other defendants, from tying to the sales of gypsum products the sales of any other products.

I think that I will allow the court to take what we say in our brief as our position on that matter.

Section 9 of the proposed decree relates to sales on non-discriminatory basis.

Now, this section of the proposed decree directs the defendants to sell gypsum board to any other manufac-

turer of gypsum products at non-discriminatory prices, terms, and conditions.

The findings that relate to that are Findings 115 to 119. Those are the findings relating to the exclusion of the Cardiff Gypsum Company.

Judge Garrett: You mean, those are the findings you wish us to make.

Mr. Knuff: Well, I want you to make those findings, and I want you to also adopt this section of the proposed decree, based upon those findings.

Judge Garrett: I understand.

Judge Jackson: You are tying this up to the findings you propose?

Mr. Knuff: That is right.

Now, this provision is the identical provision that ap- [fol. 432] peared in the International Salt case. It is taken, verbatim, from what the Supreme Court said in the International Salt case.

In the International Salt case, the International Salt people objected to having this provision in the decree because, they said, that there was nothing in the evidence at all showing that they discriminated in the sales or the leasing of their patented machines.

The Supreme Court did not agree with the position taken by International Salt, and here is what the Supreme Court said:

> "We cannot agree that the consequences of proved violations are so limited. The fact is established that the appellant already has wedged itself into this salt market by methods forbidden by law. The District Court is not obliged to assume, contrary to common experience, that a violator of the anti-trust laws will relinquish the fruit of his violations more completely than the court requires him to do. And advantages already in hand may be held by methods more subtle and informed, and more difficult to prove, than those which, in the first place, win a market. When the purpose to restrain trade appears from a clear violation of the law, it is not necessary that all the untraveled roads to that end be left open, and only the worn ones be closed."

Section 10 of the proposed decree enjoins each of the corporate defendants, and Samuel M. Gloyd, while engaged [fol. 433] in the manufacture and sale of gypsum products, from acquiring or purchasing, directly or indirectly, the business or assets, or capital stock or bonds, of any other defendant.

Subparagraph 2 enjoins each of the above-named persons, while engaged in the manufacture and sale of gypsum products, from acquiring or purchasing the business or assets or any measure of control over the business of any competing corporation or individual so engaged, unless such acquisition is approved by the court, after reasonable notice to the Attorney General with an opportunity to be heard.

The provisions of subparagraph 3 are substantially similar to those of subparagraph 2. Under subparagraph 3, the named defendants, while officers or directors of any corporate defendant engaged in the manufacture or sale of gypsum products, are enjoined from purchasing or acquiring any measure of control through ownership of stock or otherwise of any corporation, firm, or individual so engaged competing with the corporation with which he is officially connected.

Now, these provisions, subparagraphs 1, 2, and 3, are taken from what the Supreme Court did in the Hartford-Empire case.

Judge Kloeb, in his final decree in that case——

Judge Garrett: Pardon me. I promise not to interrupt any more, but: You mean the Supreme Court, did the Supreme Court issue that decree?

Mr. Knuff: They told the lower court what to do when [fol. 434] the case was up there on appeal. I am coming to what the Supreme Court said about that now.

Judge Garrett: All right.

Mr. Knuff: In paragraph 36(a) of Judge Kloeb's original decree in that case, the corporate defendants, while engaged in the manufacture of machinery to be used in the manufacture of glassware, were enjoined from acquiring, purchasing, holding or controlling, directly or indirectly, or through agents, representatives, or nominees, any of the assets except goods or merchandise purchased

in the ordinary course of business, or any of the capital stock or bonds or other evidence of indebtedness of any other defendant corporation.

Now, the Supreme Court passed upon that section of the decree, and here is what the Supreme Court said:

> "Paragraph 35 enjoins each individual defendant from holding, at the same time, an office or directorship in more than one corporation which manufactures and sells glassware, or manufactures or distributes glass-making machinery. The injunction is not limited to directorships in more than one of the defendant corporations. The same comment applies as has been made with respect to paragraph 33. There may be many instances when the normal freedom to act as a director of more than one company will in no wise conflict with the policies of the anti-trust law or tend to the fostering of practices which those laws forbid. [fol. 435] The same considerations apply to paragraph 36(a) and to 36(b), which should be limited to the acquisition of the business or assets of a competing corporation by a corporate defendant, and by any officer of a corporate defendant, of the business or all the assets of a competing concern, unless the acquisition is approved by the court."

And, at page 425 of the opinion of the Supreme Court, the Supreme Court said, "The decree should be modified to prohibit the acquisition of stocks or bonds of any corporate appellant by any other such appellant."

Now, on the remand of this cause, the former decree was modified, and here is the way in which it was modified: Paragraph 25(a) was the paragraph that took care of former paragraph 36(a); and paragraph 25(a) reads as follows:

> "The defendants, Hartford-Empire (naming those defendants) while engaged either in the manufacture and sale of glassware or in the manufacture or distribution of machinery used in the manufacture of glassware, or both, be and hereby is perpetually enjoined from acquiring, purchasing or, for more than 30 days after the entry of this judgment, from holding,

or controlling, directly or indirectly, or through agents, representatives, or nominees, the business or assets or capital stock or bonds of any other such defendant corporation."

[fol. 436] In other words, Judge Kloeb enjoined one defendant from acquiring the assets or the capital stock of another defendant.

Now, I think that, in view of the time that I have already taken, I will allow what I say in my brief to take care of the other situations mentioned in this section of the decree.

I want to come now to Section 11, and before I take up Section 11 of the decree, I want to ask the court to turn to page 12 of the decree.

Judge Jackson: Your proposed decree?

Mr. Knuff: Turn to page 12 of the proposed decree, because I am going to suggest one little modification there which will take care of the objection some of the defendants have raised, and I think it would be acceptable to us.

The third line of this section, the third word in, is the word "permitted."

Does the court see that?

Judge Garrett: You mean from the top?

Mr. Knuff: The third line of Section 11, about the middle of the page.

Judge Garrett: Oh, yes.

[fol. 437] Mr. Knuff: The third word in, is "permitted." Do you have that?

Judge Garrett: Yes.

Mr. Knuff: Insert a comma after the word "permitted" and then add these six words——

Judge Jackson: You mean, insert them right after the word "permitted"?

Mr. Knuff: After "permitted," add these six words: "Subject to any legally recognized privilege,".

Judge Garrett: "Subject to any——"

Mr. Knuff: "legally recognized privilege,".

Section 11 will then read that "The Attorney General of the United States, or his proper representatives, shall, for the purpose of securing compliance with this decree, be permitted, subject to any legally recognized privilege, one, access, and so forth."

That brings me to Section 12 of the proposed decree, and that relates to costs.

Well, it is Hornbook law, of course, that the sovereign does not pay any costs. We have assigned cases in support of that. There is no authority to tax any of these costs on the Government. We think this Section of the proposed decree should be adopted.

Then, Section 13 of the propsed decree provides that jurisdiction of the parties be retained. Well, that is the [fol. 438] usual provision in anti-trust decrees, and I have assigned in my brief the reasons why this action should be adopted.

Judge Jackson: Will you turn back to page 4 for just for one second, Mr. Knuff?

Mr. Knuff: All right, sir.

Judge Jackson: In that paragraph identified with the Roman numerals IV, what would that mean, that the attorneys shouldn't defend an anti-trust suit? You say "The provisions of this decree applicable to any defendant shall apply to the defendant, its officers, director, its agent, attorneys, servants and employees to each successor and assigns and to all persons acting or claiming to act under, through, or for such defendant or—" does that mean that if an attorney should act on behalf of any of these defendants, or under their orders, or in their interests,—he is enjoined from doing that?

Mr. Knuff: No, I haven't mentioned attorneys at law. I have mentioned attorneys, in the usual sense. I haven't said "attorneys at law."

Judge Jackson: Oh, yes, I see what you mean.

Chief Judge Stephens: I thought you did mean attorneys at law.

Judge Jackson: So did I.

Chief Judge Stephens: And I wondered if a corporate defendant or individual defendant, charged with violation of the anit-trust laws, must hire his attorneys in the future [fol. 439] only at the peril of making them subject to a decree like this, if he loses the case.

Mr. Knuff: Oh, no.

Judge Garrett: What do you mean by "attorneys"?

Mr. Knuff: Any person acting in a representative ca-

pacity, simply a synonym for agent. You can leave it out if you want to.

Judge Jackson: As attorney in fact. You could leave it out and it has the same meaning.

Mr. Knuff: Yes, leave it out if you want to.

Now, I think I am going to reserve any time that I might have, I don't know whether the court will be indulgent enough to grant me any additional time to reply, but I have pointed out, in this brief, that we do not want the provisions of Article 7 of the defendants' proposed decree superimposed upon our decree; and, the reasons for that are set forth in our memorandum, and I will allow our memorandum to speak for us.

Chief Judge Stephens: Which is Article 7?

Mr. Knuff: It appears on——

Judge Jackson: Page 85.

Mr. Knuff: On page 85. It says "This decree shall have no effect with respect to defendants' acts and operations without the United States."

Judge Jackson: That is in your portion, your proposed decree, isn't it?

[fol. 440] Mr. Knuff: No.

Judge Jackson: I think it is.

Mr. Knuff: No, Your Honor, it is not. I haven't any objections to the defendants saying or,—I do not have any objection to having a new section added to this decree, to be known as Section 14——

Chief Judge Stephens: Is that in your own decree?

Mr. Knuff: In our own decree, yes, sir. I have no objection to having a new section added to it, to be known as Section 14, which will, in substance state that the provisions of this decree are not intended to——

Judge Jackson: To conflict?

Mr. Knuff: To conflict with the——

I have set it forth here in my memorandum, and probably I can find it.

Section 14 would read:

> "Nothing contained in this decree shall be deemed to have any effect upon the operations or activities of said defendants which are authorized or permitted by the

Act of Congress of April 10, 1918, commonly called the Webb-Pomerene Act, or the Act of Congress of August 17, 1937, commonly called the Miller-Tydings Act, or by any present or future Act of Congress or amendment thereto; provided, however, nothing contained in this section shall in any manner affect the provisions of Section 6 of this decree."

[fol. 441] What we specifically object to in the defendants' proposed Article 7, is the first four lines that they have there.

Chief Judge Stephens: Down to the semi-colon?

Mr. Knuff: That is right, down to the semi-colon.

Chief Judge Stephens: Well, you are adding some other lines into the bottom too, are you not, Mr. Knuff? Perhaps you had better inform our colleagues what they are, in more definite language. There is some reference back to Article 6.

Mr. Knuff: That's right. We want to make sure that nothing in this new Section 14, if it is added, will in any way limit the provisions of Section 6, which are the provisions relating to compulsory licenses.

Judge Garrett: Won't you please put that in typewriting?

Mr. Knuff: It is in print.

Judge Jackson: Well, you have that included right in there, your Section 14, proposed: "Nothing contained in this decree shall be deemed to have any effect upon the operations or activities, et cetera, and nothing contained in this section shall in any manner affect the provisions of Section 6 of this decree."

It is there.

Mr. Knuff: That is right.

Chief Judge Stephens: It is on page 164.

Judge Jackson: That particular portion.

Chief Judge Stephens: I thought, when you said your [fol. 442] memorandum, you meant your oral or speaking memorandum.

Chief Judge Stephens: All right, Mr. Connelly.

By Mr. Connelly:

Mr. Connelly: May it please the court, it is quite evident, I think, from what has been said here today, that the plaintiff's position is that the granting of the motion for summary judgment in its favor was equivalent, in all respects, to an adjudication, in its favor, on all of the issues presented by the pleadings, and indeed, on some issues which have not been presented by the pleadings.

The entire, rather complex proposed decree which it has submitted; the voluminous findings, and the conclusions, all presuppose and are predicated upon a conspiracy of the broadest possible scope; a conspiracy not confined to fixing the price of gypsum board, but a conspiracy to fix the price and regulate the production and sale of all kinds of gypsum products, patented and unpatented; a conspiracy not limited by territory; a conspiracy which includes, as one of its objectives, according to the Government, the maintenance of resale prices, as well as original prices.

Many other provisions in the proposed decree submitted by the Government are justifiable, if at all, only on the assumption that this court has found a scheme or plan among the defendants to fix prices in the industry, and the [fol. 443] patent license agreements were not bona fide patent licenses, but were used as a sham to disguise that illegal purpose.

Our understanding of this court's decision is a different one.

As we understand it, the holding by this court, or by a majority decision, was predicated upon the defendants entering into license agreements with the price provisions; and, upon the issuance pursuant to those price provisions, of price bulletins; and, upon the action taken thereunder; the adherence to price provisions of the licenses and to the bulletins with knowledge by each of the adherence thereto by the others.

All that in good faith, and in the belief that, albeit a mistaken belief, that that action and those agreements were proper and lawful, under the doctrine announced by the Supreme Court in the General Electric case.

Now this court, of course, has in mind clearly the scope of its own determination, and I do not propose to presume to make any comments with reference to this court's determination in that connection.

I should, however, like to comment very briefly upon certain aspects of the Supreme Court decision as bearing upon this question that is now before us, of the proposed findings, conclusions and decree, because I take it that without the Supreme Court opinion, we would have a judgment for the defendants and would not now be discussing the possibility, [fol. 444] or discussing the judgment for the plaintiff, and the form of that judgment.

Now, the Supreme Court did, as I see it, three things in its decision: In the first place, it held that, so far as the evidence introduced in the plaintiff's case is concerned, that that made out a prime facie case and therefore it required a reversal of this court's prior decision.

Secondly, the Supreme Court made certain statements as to the law applicable to the situation of a plurality of license agreements with price-fixing provisions, which this court held to be applicable to the admitted, undisputed facts in this case; and, on the basis of that, made its decision granting the motion for summary judgment.

The third thing that the Supreme Court did was to reject, as erroneous, certain of the findings of fact heretofore made by this court, and as to which further evidence was rejected by this court upon the theory that those facts, and the issues presented by those findings were not material to the decision that this court was making.

Now, so far as the classification of action by the Supreme Court, statements made by the court, with reference to the law applicable to plurality of license agreements with the price-fixing provisions, most of those statements have been made, have been referred to in the course of the argument today, but one has not, and that is that statement of the court beginning at page 23 of the slip opinion, or page 389 [fol. 445] of 333 U. S., beginning with the words "We think that the industry-wire license agreements entered into with knowledge on the part of licensor and licensees of the adherence of others with the control over prices and methods of distribution through the agreements and the bulletins

were sufficient to establish a prima facie case of conspiracy."

Chief Judge Stephens: Where is that language? I am sorry, I don't find it in the slip opinion.

Mr. Connelly: That is page 23 of the slip opinion.

Chief Judge Stephens: Oh,—page 23 of the slip opinion.

Mr. Connelly: Beginning about 7 lines down.

Chief Judge Stephens: I see it.

Mr. Connelly: I am sorry I didn't make that clear.

And then, following that general statement is a reference to the awareness by the licensees of the intentions of the parties, the provisions of the license agreement, royalty provisions, and the bulletins; and then, the court continues at the bottom of page 23:

> "The District Court did not accept the foregoing facts as definite evidence of a conspiracy. To us, these facts are proof of a conspiracy. Certainly they are overwhelming evidence of a plan of the licensor and licensees to fix the prices and regulate operations in the gypsum board industry."

And, I emphasize the word "board" advisedly.

[fol. 446] The second reference along that line, in the Supreme Court opinion, appears at page 27 of the slip opinion, page 393 of 333 U. S. That is about the middle of the page of the slip opinion:

> "The license agreements and the bulletins establish the conspiracy of the licensor and each licensee to violate the Sherman Act."

Then next, on pages 34 and 35 of the slip opinion, 400 and 401 of 333 U. S., appears the language which has been several times today adverted to, beginning: "The General Electric case affords no cloak for the course of conduct revealed in the voluminous records, et cetera."

Now, those excerpts or provisions of the Supreme Court opinion seem to me to make entirely clear the limits of the court's statements on the basis of which this court was asked to and did grant the motion for summary judgment.

The defendant United States Gypsum Company, of course, opposed that motion and took a different position

as to the import and meaning of the Supreme Court opinion, but that has been determined by the decision of this court and we are now concerned solely with attempting to isolate and turn to those portions of the Supreme Court opinion on the basis of which a motion for summary judgment could have been granted on the concededly, admitted facts; and each one of those references in the opinion makes it entirely clear that what the court was there talking about, [fol. 447] and was there distinguishing from the General Electric case, was the issuance of patent license agreements throughout an entire industry, patent license agreements containing price provisions, and the adherence to those price provisions by each of the defendants with knowledge of the adherence of others.

Those were the facts which have been admitted by the defendants, on the basis of which a motion for summary judgment could be granted.

The only other aspect of the Supreme Court decision which might possibly have a bearing here is the statement, or statements to which I have referred, in which the Supreme Court rejected findings of fact made by this court. In other words, statements by the Supreme Court applicable not to the conceded facts, but applicable to the facts in dispute among the parties.

The Supreme Court rejected the findings of this court in four, and only four respects.

One. The findings of this court that defendants had not associated themselves in a plan to blanket the industry under patent licenses and stabilized prices. That is finding 118, which has been mentioned.

Two. The findings of this court that there was not any agreement among the defendants to eliminate the production of open-edge board. Those findings were rejected by the Supreme Court.

[fol. 448] Three. The findings of this court that the license agreements were not executed with the intent of eliminating jobbers, and the other subsidiary findings bearing upon that general finding.

Fourth, the findings of this court that there was not any understanding or agreement among the defendants that

prices would be raised or fixed upon plaster or any unpatented product, and the subsidiary findings relating to that.

Now, those are the four respects in which the findings of this court were disturbed by the Supreme Court, in its opinion. In all other respects, while the court recited evidence with reference to this subject, and the other subjects, as evidence offered by the Government to prove some fact, or as evidence having a tendency to prove some fact, they nevertheless refrained from any rejection of a finding themselves, and left that for such disposition as this court should make of it in further proceedings thereafter.

Now if, in the further proceedings contemplated by the Supreme Court, the defendants had appeared here and had rested their case without introducing any evidence, or without offering to introduce any evidence, it still, I take it, would not be incumbent upon this court to find the facts otherwise than they had previously found them, even as to the four respects in which the Supreme Court rejected the findings of this court.

To be sure, this court would not then be free to find all [fol. 449] over again the precise facts as found, as rejected by the Supreme Court; but nevertheless, as I understand the law, this court is always under an obligation to make its own determination as to the facts and is not required to find the facts otherwise than it has found them, merely because the Supreme Court has reversed on that finding and in that connection, although that situation is not here presented, it nevertheless I think has an application.

Your Honors may be interested in looking again perhaps at the case of Hartford-Empire Company against the Shawkee Manufacturing Company, a decision by the Third Circuit Court of Appeals in 1944, reported at 147 Fed. 2nd, 532.

In that case, which was a patent infringement case——

Chief Judge Stephens: 532?

Mr. Connelly: 532, yes, sir.

In that case, a patent infringement case, judgment had been rendered for the plaintiff by the District Court, and by the Circuit Court of Appeals. When the case got to the

Supreme Court, the judgment of the lower court was reversed upon the ground that, the Supreme Court held, the plaintiff had not come into court with clean hands. The basis of that conclusion by the Supreme Court had to do with certain of the alleged frauds charged in the Hartford-Empire case, the Government's case against Hartford-Empire Company which was referred to earlier today.

[fol. 450] Judge Garrett: Pardon me. You used an expression awhile ago, the full significance of which I did not get. Perhaps I may not have correctly understood the expression. The purport of it seemed to be that if this court should have granted a hearing upon these different questions upon which the Supreme Court did not pass, in our view, that we then might have reconsidered the question, I mean, the determination of the Supreme Court with respect to those questions upon which they did pass.

Mr. Connelly: No, sir. I perhaps did not make myself clear. I did not mean to convey that impression.

Judge Garrett: Perhaps I misunderstood you.

Mr. Connelly: I was addressing my remarks there solely to the necessity of making findings of fact incorporating the views expressed by the Supreme Court, on the evidence which it did discuss; and, I was referring in that connection, to this case of the Hartford-Empire Company against Shawkee, where that precise situation was presented; and, to say the Supreme Court reversed the lower court and directed the entry of a judgment dismissing the complaint.

The District Court carried out that direction and entered a judgment dismissing the complaint. One of the parties applied to the Circuit Court of Appeals for an amendment of its mandate so as to direct the District Court to make the findings of fact specific, covering the factual situation which had led the Supreme Court to reverse; and in refusing to [fol. 451] amend its mandate in that respect, the Circuit Court of Appeals pointed out, after saying:

> "We think it is clear that what the defendants really want is a mandate from us directing the District Court to make such findings at once, in advance of the submission to the court of any evidence upon which the findings might be based."

And then, I don't propose to read all of that, but just a portion of it:

> "A finding of fact is not the goal of the judicial process, nor is it the relief which a court of justice accords a litigant. On the contrary, it is merely an intermediate step in the judicial process of deciding a controversy. Its office is to distill from the evidence which has been adduced at the trial of the disputed issue, the pertinent facts which must be known by the court in order to enable it to determine and apply the relevant rules of law and thereupon, to grant appropriate relief to the litigants. Findings of fact are not to be made in a vacuum, but only in connection with an issue of fact which is before the court for adjudication, and after the evidence bearing upon that issue has been received and considered by the fact finders (citing cases). For us to direct the District Court, in advance of its having heard the defense of the defendant's pending counter-[fol. 452] claims, to make the fact findings which they seek, would be to compel the court to pre-judge crucial fact questions in the case, a procedure which is abhorrent to the concept of fairness involved in due process of law."

Now that statement, from the Third Circuit Court of Appeals, I regard as applicable to the situation here, in that with reference to these four respects in which the Supreme Court rejected the prior findings of this court, upon the motion of summary judgment, the defendants made specific offers of proof.

[fol. 453] Offers of proof were made with reference to the alleged plan to blanket the industry. That is Offer No. 1.

Offers of proof were made with reference to the claimed agreement to eliminate the production of open-edge board. That appears in offers Nos. 46 and 54.

Offers of proof were made with respect to the claimed agreement to eliminate jobbers. That appears in offers 56 and 57.

Fourthly, offers of proof were made with reference to the alleged agreement to fix prices on plaster, paragraphs 58 and 59 of the offer of proof.

So that all of those matters, all of those areas in respect to which the Supreme Court disturbed the findings made by this court, were the subject of offers, by the defendant, to introduce additional evidence in support of the defendant's contentions.

Clearly, the rejection of those offers to prove does not place this court in a position to decide those disputed questions of fact now, on the present state of the record, in a manner contrary to that which the defendants have offered to prove.

The motion for summary judgment, under Rule 56, predicates the claim for relief squarely upon the proposition that there is no genuine issue of fact, or no genuine issue as to any fact material to the judgment sought. On such a [fol. 454] motion, it is certainly abundantly clear that the court may not there, and then, decide disputed questions of fact; and, the court may disregard facts as to which there is an issue only to the extent that the court regards those facts as immaterial, not material to the relief then being granted.

The only material facts then before the court as to which there was no genuine issue, were, first, that the patent licenses were executed; secondly, that they had price fixing provisions; thirdly, that such provisions, including the price bulletins issued thereunder, were adhered to with knowledge of the adherence by others; and on all other matters, there were genuine issues created, not only by the pleadings, or created by the evidence already in the record, and created also by the defendants' offer of proof.

It is our view, therefore, that on the case as it now stands, that the court is not in a position properly to decide against the defendants on the various issues as to which there was a genuine issue of fact; and that the decree which may properly be entered at this stage, must be one which is based upon those material facts as to which there was not any genuine issue.

Now, with that introductory comment to the consideration of the proposed findings, conclusions and decree, first with reference to the necessity of findings or conclusions: Rule 52(a) provides specifically that findings of fact and [fol. 455] conclusions of law are unnecessary on decisions of motions under Rule 56. The words of the rule are specific on that and there cannot be room for controversy.

Of course we recognize that that provision does not prevent the court from making findings of fact and conclusions of law if it deems them desirable.

The question whether, in any given case, findings of fact and conclusions of law should be made on a motion for summary judgment, notwithstanding the fact that it is not necessary to make such a finding, is a difficult one to determine in a vacuum. I mean by that: There are some decrees which clearly would require some indication by the court of just what it had found; just what it had concluded, in order that *if* the decree might properly be understood.

The provisions, for example, of the decree proposed by the plaintiff containing, as it does in so many respects, injunctive provisions going beyond what we have thus far conceived to be the issues in the case, might well require a statement of the precise facts found by the court, and conclusions made in order to justify those injunctive provisions. If, however, the decree is clear on its face as to just what is found, then it is our position that there is not only no necessity, but that there is not any occasion for the court to make any specific findings of fact and conclusions of law.

We have annexed to our memorandum, as Exhibit B, a [fol. 456] set of findings of fact and conclusions of law which we are not here proposing as being findings of fact and conclusions that we urge the court to make, but merely setting forth our views as to what might properly be found, and concluded, if the court should decide that some findings and some conclusions were necessary.

Those proposed findings consist of 25 numbered paragraphs, the first 22 of which are taken verbatim from corresponding paragraphs of this court's prior findings. In other words, those are questions on which the court has already passed. They are questions on which this court's decision was not disturbed in any respect by the Supreme Court.

Judge Garrett: You wouldn't think it would be proper to repeat that, would you, in a decree?

Mr. Connelly: No, not in a decree, sir; but so far as findings of fact are concerned, yes.

Judge Garrett: Oh, in findings of fact.

Mr. Connelly: Yes, sir, and the concluding paragraphs 23, 24, and 25 are merely additional findings designed to

cover what we understand the court has added, the additional ground, so to speak, covered by this court in granting the motion for summary judgment.

Then, there are three relatively simple conclusions of law which, as we conceive it, would adequately cover the situation.

Judge Garrett: May I interrupt?

[fol. 457] Mr. Connelly: Yes, sir.

Judge Garrett: May I ask you: I have this before me (indicating document). Do you have that before you?

Mr. Connelly: Yes.

Judge Garrett: Will you turn to page 19 of that, the last paragraph, just before Section 7? This sentence has puzzled me:

> "Their rights should be recognized in the decree by giving the licensees the right to take a non-exclusive license to make, use and sell patented gypsum plasterboard lath and wallboard, embodying the inventions of the same patents under which they are now licensed at reasonable royalties to be agreed upon between the parties."

Would you be good enough to explain that to me, what you meant by that?

Mr. Connelly: I shall endeavor to.

In this situation, the patents which are in question here are the patents of the United States Gypsum Company. Now, licenses were issued under those patents to the other defendants in the case, in order to permit those other defendants to manufacture the patented gypsum board. All of those license agreements were, as we have pointed out, entered into in good faith by the United States Gypsum Company as licensor, and by the other defendants as licensees in the [fol. 458] belief that the provisions of those license agreements were authorized by the Supreme Court decision in the General Electric case, and that a belief that was shared by this court, itself, upon the initial trial.

Now, the Supreme Court has held that certain provisions of those patent license agreements are invalid, that is to say, the price fixing provisions. The effect of the Supreme Court's determination, as interpreted by this court in granting the motion for summary judgment, is going to be

to strike down those license agreements. That, then, will leave the other defendants without the protection of a patent license. Those other defendants have invested funds in the construction of manufacturing facilities on the strength of and in reliance upon their right under the license agreement, to continue to manufacture products embodying inventions covered by U.S.G. patents; and, it was merely in the belief that it would be inequitable for the United States Gypsum Company, or for those licensees, I should put it the other way around,—for those licensees to be deprived of their right under the license agreement, their right to manufacture, merely because of a decision holding unlawful, conduct which all the parties to the license agreement had theretofore regarded as lawful.

Therefore we proposed that in the decree should be a provision, and I will cover that specifically when we get to that part of the decree—a provision under which the licensee defendants would continue to have the right to make, use [fol. 459] and sell patented products, the same rights that they may have, but under license agreements without the price fixing provisions which have been condemned by the Supreme Court.

Does that answer Your Honor's question?

Judge Garrett: I think that does, yes.

Chief Judge Stephens: While you are at that point, you might comment upon the contention of the Government that under the Hartford-Empire case, that a non-exclusive license agreement should be given to any applicant, not only just the licensee defendants.

Mr. Connelly: That is one of the provisions in the Government's decree which we regard as most objectionable.

I might say, parenthetically, with reference to that provision: Counsel for the plaintiff states, as if it were a fact of some significance, that none of the other defendants object to Section 6 of their proposed decree.

Well, of course they don't, because Section 6 of the proposed decree relates solely to the defendant United States Gypsum Company and would purport to require United States Gypsum Company to grant licenses to any applicant therefor.

The several subparagraphs under that license provide rather elaborate machinery under which any question as to

the amount of royalty would be determined by this court, and so forth.

Now, it is perfectly true that some decrees in some situa-
[fol. 460] tions have directed compulsory licensing under patents, but it is a most extreme and drastic remedy, because the effect of it is to take away, in part at least, the property right of the owner of the patent.

Now, the only situations which counsel for the Government has referred to in which such compulsory licensing provisions have been included in the decrees are—first, the Hartford-Empire case. Well, certainly, that was a most extreme situation in which the power of the conspiracy had been obtained by aggregating patents belonging to the several members of the conspiracy, placing them together in a patent pool. Your Honors will recall the various cross-licensing arrangements between Hartford-Empire Company, on the one hand, and Owens-Illinois, Hazel Atlas, and others, and vesting in the Hartford-Empire Company, as a licensing agency the sole power to license others under any of these competing patents in the pool.

[fol. 461] That was the situation which, in a true monopoly sense, there had been acquired by a combination, the power to exclude others from the industry.

Judge Jackson: Well, would that, in its final analysis, be any different?

Mr. Connelly: Yes, sir.

Judge Jackson: I am just wondering why?

Mr. Connelly: It is different in this sense——

Judge Jackson: U. S. Gypsum has the reins. It has the control. Whether it got them by purchase or by original application, or, as in the Hartford-Empire case, Hartford-Empire had it, so when you have Gypsum on the one hand exercises the power of fiat and veto, and Hartford-Empire on the other, regardless of how they got it, has the same power, what is the difference there?

Mr. Connelly: I think the fundamental difference lies in the manner in which the patents are acquired.

On the one hand, United States Gypsum Company, holding the patents, has a property right to exclude others. That is a perfectly lawful right, and its acquisition was lawful.

In the Hartford-Empire case, the acquisition of the power was not by any lawful means, but was by virtue of the very combination and the conspiracy which was stricken down as illegal. That is, I think, a significant point of difference between the two cases; and there is, of course, the additional [fol. 462] fact, and that is that in the Hartford-Empire case there had been an abundant evidence of the intention of Hartford-Empire Company, acting, in a sense, as the agent for the pool to exclude others in the industry and to prevent them from obtaining or to refuse to grant licenses; whereas in this situation, we do not have any evidence of any refusal on the part of United States Gypsum Company to grant licenses to others.

Judge Jackson: How about the Cardiff matter?

Mr. Connelly: The Cardiff did not involve any question of a license under patents.

I don't want to avoid any part of your question.

Judge Jackson: Don't let me interfere with the thread of your argument.

Mr. Connelly: Now, after all, this is a decree by a court of equity, and the provisions of a decree should fit the particular fact situation with which the court is dealing. In some cases, of course, rather drastic provisions may be required in order to correct wrongs which have existed in the past. In other cases where the same wrongs have not existed, a completely different kind of relief would be appropriate.

The Hartford-Empire case is one of the most extreme cases, so far as conspiratorial action, not, I take it, to be confused with the situation such as we have here, where everything that the parties did was done in the belief that it was a perfectly lawful exercise of patent rights.

[fol. 463] The two other cases, going back to Your Honor's question—the two other cases which the Government referred to as having been compulsory license provision cases, one, the National Lead case; and, two, the Line Material case—so far as the National Lead case is concerned, again you had a cross-licensing arrangement between the National Lead Company, and DuPont.

When that case got to the Supreme Court on appeal from that decree, there wasn't any issue made as to the propriety of reasonable royalty, compulsory licensing. In other

words, no one raised that question before the Supreme Court. The question decided by the Supreme Court in that respect was merely whether there should be royalty-free, compulsory licenses, or reasonable royalties for compulsory licenses.

[fol. 464] As far as the Line Material case is concerned, counsel for the Government pointed to the provision on compulsory licensing there contained, and called your Honors' attention to the fact that this decree was entered after argument.

It is quite true that this decree was entered after argument. I participated in the argument with reference to that decree. I did not, however, represent in that case, the patentee, I represented one of the licensees; and the compulsory licensing provision requested by the Government, and therein incorporated in the decree, was not opposed by the patentee in that case. Whatever reasons the patentee may there have had are not known to me and are not, perhaps, of interest in this proceeding. In any event, that did not involve any contest between the Government and a patentee concerning the propriety of the compulsory licensing provision in that case.

There is such contest here, and the defendant United States Gypsum Company objects very strenuously to that provision of the Government's proposed decree.

Have I answered Your Honor's question in that respect?

Now, I have been discussing the question with reference to the findings of fact and conclusions of law. The Government's proposed findings and conclusions are, as Your Honors have already ascertained, extremely voluminous. They involve some 165 findings, and some 17 conclusions. Obviously, it would be impracticable, as well as lacking in [fol. 465] utility, to undertake any detailed discussion of each of those findings, or even groups of those findings. I should like merely to make certain general observations with reference to them, and that is, that in almost every case they are in the form of argumentative statements of evidentiary facts, a statement of evidence, or selected portion of the evidence designed to create an inference of some wrong doing, as the result of the manner in which they are phrased.

Secondly, in almost their entirety, those proposed findings are wholly outside the scope of what we understand this court decided on the motion for summary judgment. They deal, not with what we have described as a combination by plurality of licenses, they deal with the charge made in the complaint of an over-all plan or scheme to fix prices, using the license agreement to disguise their illegal purposes.

Thirdly, in many respects, which we have pointed out in our memorandum, the proposed findings are inconsistent and are in conflict with findings of fact heretofore made by this court upon the same record.

Now clearly, certainly as to any findings as to which the Supreme Court did not reject the prior findings of this court, it is an absurdity, I take it, to ask this court now to reverse its trial findings upon the same evidence that it previously had before.

Fourthly, in many, if not most respects, the proposed [fol. 466] findings submitted by the Government include facts in dispute, facts as to which the defendants have made offers of proof, and as to which this court has declined to review further evidence.

And, fifth, they are in many respects based upon hearsay statements contained in the declarations which, as Your Honors will have in mind, the Supreme Court held admissible in evidence, but as to which the defendants have, by reason of this Court's decision on the motion for summary judgment, been denied any opportunity of presenting evidence in explanation, and therefore we submit it would be wholly improper at this time, in the absence of that explanation, in the absence of the opportunity to make that explanation, to base findings of fact on such evidence, even though out of the Supreme Court's decision, this court can properly regard those hearsay declarations as being admissible in evidence by reason of what the Supreme Court defined as the prima facie case of conspiracy.

Each of those, as I say, each of those proposed findings have been dealt with in our memorandum, and the only one which I think deserves any comment here is that with reference to the Cardiff Gypsum Company, which Judge Jackson referred to a moment ago, because it was singled out

for discussion by counsel for the Government in his oral argument.

Those proposed findings by the Government, 115 to 119, relating to the Cardiff Gypsum Company, are dealt with in [fol. 467] our memorandum at page 56.

I should like to make just two brief comments with reference to that.

First, the court called counsel's attention to this fact that the testimony of Mr. Sensibar, referred to in support of the proposed findings, was received in evidence, but it was received in evidence for the limited purpose of its bearing upon the charge of fixing prices of plaster. It was not received with reference to any claim of exclusion from the market, and indeed there was not in the complaint any such charge of exclusion of purchases from the market.

Notwithstanding the limited character, the limited nature of the receipt of evidence in that testimony, the proposed finding deals not with plaster prices, but, as indicated in proposed Finding 119, "The defendants have excluded the Cardiff from the board market and this exclusion constitutes an undue and unreasonable restraint and monopolization of trade."

[fol. 468] Secondly, counsel also stated that there was nothing in defendant's proffer of proof relating to the Sensibar testimony. The fact is that the offer of proof contains two paragraphs, 58 and 59, dealing specifically with the issue relating to plaster prices, the only issue on which Mr. Sensibar's testimony was received.

Apart from those two comments, I think the balance of the position of the defendants with reference to those proposed findings are dealt with in the portion of the memorandum to which I have referred Your Honor's attention.

Chief Judge Stephens: What paragraph of your offer did you refer to, paragraphs 52 and 53?

Mr. Connelly: 58 and 59.

Chief Judge Stephens: 58 and 59?

Mr. Connelly: Dealing with the offer to prove with respect to the absence of an agreement to fix prices on plaster.

Now, I should like to take up, with the court's permission, the question of the form of the decree to be entered here.

In our consideration of the form of the decree proposed by the Government, it has seemed to us that if the provisions

go so far beyond the scope of what we understand was decided upon the motion for summary judgment, that rather than to attempt to deal with each specific provision of the Government's proposed decree, in a negative fashion, that it might be more helpful to the court to set before it a form [fol. 469] of decree, not in the sense of that decree being proposed by the defendants, of course, but a form of decree which we would regard as a proper and an approriate form under the court's decision, as we have understood it. That form of decree is set forth as Exhibit A, to our memorandum, beginning at page 81 and continuing to page 85.

In discussing the specific provisions of the Government's proposed decree, it might be helpful to the court to have before it, in connection with that discussion, the specific provisions of the form of decree annexed to our memorandum which should correspond thereto, and we have therefore prepared for the convenience of the court, a schedule setting forth, in two columns, the excerpt of portions of plaintiff's proposed decree, and the form of decree attached to our memorandum.

May I have Your Honors' permission to hand copies of those schedules to the court?

Chief Judge Stephens: Mr. Marshal, will you help counsel to distribute them please.

(A paper writing entitled the "Comparison of Decree Proposed by U. S. with Form of Decree Submitted by U.S.G." was distributed to counsel and the court.)

Chief Judge Stephens: Proceed.

Mr. Connelly: The only portions of the two forms of decree which are not included on the schedule are the respective preambles, that is, prior to section 1. The differ- [fol. 470] ences between the two forms of preamble are largely self-explanatory and largely formal, except for the fact that in the Government's proposed decree, in that preamble there is a recitation of a finding of Sherman Act violation which is completely undefined and without limitation; and that in the form of decree annexed to our memorandum, we have attempted to define and make precise, that is to say: "The court having found that under the aforesaid opinion of the Supreme Court, as construed by it, the defendants by adhering to the minimum price pro-

vision, patent license agreements in an entire industry, with knowledge of the adherence thereto of the others, thereby acted in concert to restrain trade and commerce among the several states in the Eastern Territory of the United States."

And secondly, the statement in the preamble of the Government-proposed decree that there is no genuine issue as to any material fact. In the context in which that statement appears, it seems to us that that goes far beyond the scope of the court's determination, and we have therefore suggested its limitation at the top of page 82 by the provision that: "There is no genuine issue as to any fact material to that finding." That is to say, the finding as to law violation previously defined precisely.

Turning now to the schedule of the two forms of decree, section 1, of course, is purely formal. There is no difference between the two forms of decree in that respect.

[fol. 471] Now, the definitions do present several serious questions. Because definitions are not particularly significant in the abstract, it would seem to me desirable to take up those definitions as the terms defined are first used in the body of the decree, so that the court will be in a position to determine just what differences are effected by the difference in the definition.

Article 3 of the Government's proposed decree is this broad finding of conspiracy to restrain trade and monopolize trade, without any limitation, without any definitions or restrictions. In order words, it is almost the language of the Sherman Act, and we think that goes again, far beyond any determination made, or that should be made by this court.

Now, in that Article 3 appears the term "gypsum products." The defendants have "contracted, combined and conspired to restrain trade and commerce in gypsum products." That takes us back to the definition.

> "Gypsum products shall mean those products used primarily in the building construction industry made from gypsum, including but not limited to, plaster, plasterboard, lath, wallboard (the latter three may be ordinary, perforated or metalized), special surfaced gypsum board, sheathing, liner board, block, tile, and Keene's cement."

In other words, by that definition of gypsum board, and [fol. 472] by using the term "gypsum products" in Article 3, and indeed elsewhere throughout the decree, the Government has made the decree, and the injunctive provisions apply far byond any combination in restraint of trade of gypsum board, but has extended it to include a restraint of trade in all kinds of gypsum products, indeed, even those beyond the specification in the bill of particulars as to what was meant by "gypsum products" in the complaint.

To that extent, then, it goes beyond the scope of the determination made here.

Next, in that same provision of the decree, finding of a combination and conspiracy is not limited territorially, although the charge in the complaint was a combination and conspiracy to restrain trade in the eastern territory of the United States.

And lastly, it contains a finding with reference to monopolization under Section 2 of the Sherman Act.

Now, monopolization, the attempt to conspire to monopolize, under Section 2 is an offense which is something different from the offense under Section 1 of the Sherman Act, a combination to restrain trade.

Judge Garrett: Did the Supreme Court make any distinction, in this decision, between those two sections?

Mr. Connelly: No, sir, at least as I read the opinion, it did not deal with the question of monopoly as distinguished from combination in restraint of trade; but, it was not, [fol. 473] perhaps, before the court for decision in its opinion and decision in this case.

It is now, I take it, before this court; and, it is before this court by reason of the Government's request that the decree include a finding of violation of Section 2, as well as violation of Section 1.

Chief Judge Stephens: We will adjourn this afternoon at 5:30.

You may proceed to occupy another half an hour, then.

Mr. Connelly: I think I can state our position with reference to that question briefly, that Section 2 question, and again we have dealt with it in our memorandum.

First, as the Supreme Court has pointed out in the American Tobacco case, 328 U.S., page 788, "Sections 1 and 2 of the Sherman Act require proof of conspiracy which are re-

ciprocally distinguishable from and independent of each other, and although the objects of the conspiracy may partially overlap."

Secondly, the definition in that statement in that same case, the American Tobacco Company case, as to what was meant by the term "monopolize" as used under Section 2 of the Sherman Act,—the court approved a charge to the jury which read, in part:

> "The joint acquisition or maintenance by the members of a conspiracy formed for that purpose, of the power to control and dominate interstate trade and [fol. 474] commerce in a commodity to such an extent as they are able, as a group to exclude full or potential competitors from the field, accompanied by the intention and purpose to exercise that power."

[fol. 475] That charge to the jury, as I say, was specifically approved by the Supreme Court, which went on to say at page 809:

> "A correct interpretation of the statute, and of the authorities makes it a crime of monopolizing, under Section 2 of the Sherman Act, for parties in these cases to combine or conspire to acquire or maintain the power to exclude competitors from any part of the trade or commerce of the several states or foreign nations, provided they also have such a power that they are able, as a group, to exclude actual or potential competition from the field, and provided that they have the intent and purpose to exercise that power."

Now, it is on those grounds, recited a moment ago, that distinguish the situation that exists here with reference to the U.S.G. patents. Of course, the ownership of those patents gives the power to exclude. That is, by definition, what a patent consists of; but that power to exclude is something different from the power to exclude referred to in the cases as constituting a violation of Section 2 of the Act, the power to exclude as a group, a power acquired by combination or conspiracy.

Now, it is quite possible, and I think in answer to Judge Garrett's comment a moment ago as to whether the Su-

preme Court said or did not say anything with reference to distinguishing between the two concepts of this case—it [fol. 476] would be quite possible, conceivably, let us put it that way, that any trial on the basis of which all of the Government's charges in the complaint were sustained by evidence in the case—of course it would be possible to find both a violation of Section 1, a combination and conspiracy to restrain; and, something different, that something different being the attempt to monopolize or conspiracy to monopolize under Section 2. But, because of the disposition actually made of the case by this court, in other words the granting of a motion for summary judgment on the theory that the admitted facts with reference to the plurality of licenses justified the granting of the motion, it is our position that nothing more was determined which would authorize a finding of violation of Section 2 of the Sherman Act.

By contrast, in our proposed Article 3, which is set down in the second column of the schedule, we have attempted to define what we understand this court's decision to be as to the nature of the law violation. The defendant companies, by adhering to the minimum price provisions of the patent licenses in an entire industry, with knowledge of the adherence thereto of the others, acted in concert in restraint of trade and commerce among the several states in the Eastern Territory of the United States to fix, maintain and control the prices of gypsum board, in violation of Section 1 of the Sherman Anti-Trust Act.

Now, there are three definitions that come into play there. [fol. 477] Judge Garrett: May I interrupt again?

Mr. Connelly: Yes, sir.

Judge Garrett: You said, what this court undertook to define, or did define—you mean in that summary judgment action, or—it's the Supreme Court that did this, not this court.

Mr. Connelly: But, following the Supreme Court's action, then this court granted——

Judge Garrett: You mean, it interpreted the Supreme Court's decision?

Mr. Connelly: It interpreted its decision and granted the motion for summary judgment.

I meant to point out only that in so doing, this court, as we have understood it, did not go beyond the questions

determined by the Supreme Court, and did not undertake to decide all of these disputed questions of fact embraced within the charges of the complaint; but, not determined—as to which the law was not determined in the Supreme Court decision.

Now, as used in that Article 3 in our form of decree, the definition of minimum price provisions is of some importance. That is defined in Article 2, paragraph 4, it appears at the top of the same page as the schedule, on page 2:

> "'Minimum price provisions' shall mean and include: (a) Any provision contained in a patent license agreement constituting an agreement, reservation of [fol. 478] right, or license limitation with respect to the price or other terms or conditions of sale of gypsum board; and (b) any price bulletin or other notice or communication issued pursuant to any such provision."

In other words, it is our intention, in that definition, to define minimum price provisions in the broadest possible way so that the decree entered by the court would strike down entirely every feature of it that might be regarded as coming within the Supreme Court's opinion, as interpreted by Your Honors.

The term "patent licenses" is also defined in the preceding article, that being paragraph 5 of Article 2, as those: "Which were in effect between the defendant United States Gypsum Company and each of the other defendant companies at the time the complaint herein was filed and prescribed in said complaint."

And then, we go on to list the various patent licenses that were in effect at the time the complaint was filed in this action.

[fol. 479] Now, with reference to that list of patent license agreements, counsel for plaintiff has stated here that it is entirely agreeable to him that that list of licensees be incorporated provided that it can be certified that those are the only agreements in effect between the parties.

In attempting to deal with that situation specifically, we think that to avoid any possibility that there may be some amendments or supplements to those agreements which thus far have not come to our attention in connection with it,

at the end of Article II of the form of decree attached to the defendants' memorandum these words might be added: "And any supplement"—that is at page 84 of our memorandum.

Chief Judge Stephens: Where would that go?

Mr. Connelly: At the very end of Article II.

Chief Judge Stephens: Article II, at the top of page 84?

Mr. Connelly: Yes, sir, at the top of page 84, just after the list of licensees.

Chief Judge Stephens: I see.

Mr. Connelly: "And any supplement or amendment to any of said patent licensee agreements." With that addition, the list is obviously all-inclusive, and the certification requested may properly be made.

Chief Judge Stephens: "And any supplement or amendment"——

Mr. Connelly: "And any supplement or amendment to any [fol. 480] of said patent license agreements."

One other definition involved in Article III is the definition of "gypsum board". That is defined in Article II, paragraph 3, as meaning "plaster board or lath (including perforated and metallized lath) and wallboard (including metallized wallboard) made from gypsum and embodying any of the inventions or improvements set forth and claimed in any of the patents."

That finding of combination and conspiracy in the form of decree which we have annexed to our memorandum is consciously limited to a conspiracy to fix, maintain and control the prices of gypsum board. It is so limited because that is a situation which the Supreme Court was dealing with and which this court was dealing with on the motion for summary judgment, that is to say, the combination by plurality of license agreements to fix the prices of the patented board licensed by the agreement itself.

Now, one statement was made today in oral argument by counsel for the plaintiff to the effect that, as I recall it, there is no evidence in the record that any of the board actually made by the defendants actually embodied inventions covered by the patents.

Well, of course, that is inverting the problem, I should think, because the issue, as it developed in this case, and one of the principal issues, shall we say, was whether these

[fol. 481] license agreements were bona fide license agreements designed to permit the licensees to manufacture infringing products or whether those license agreements were merely entered into as a sham to disguise price fixing.

That view of the situation was indicated by this court in its finding 55, in which it was stated:

> "No evidence has been introduced proving, or tending to prove, that the board made and sold by the defendants was not made under the patents on which the license agreements were based."

In addition to that, there are two other specific findings relating to the question. Finding 36:

> "The companies which became licensees did so because they desired to settle or avoid litigation, and to obtain the right to use U.S.G.'s patents, considering it a business necessity to be able to do so. Several of the licensees had made the closed-edge board before they acquired the right to do so from U.S.G., for which infringement of the Utzman patents they paid substantial damages. Also some of the licensees had manufactured board containing starch which was covered by the Haggerty patent. Numerous other patents included in the licenses were essential to the manufacturing of modern gypsum board."

That is finding 36 which was just read in full and was not disturbed in any respect by the Supreme Court in its de-[fol. 482] cision.

And finding of fact 74 deals in part with the same situation.

I will read just a portion of it:

> "The primary purpose of U.S.G. in granting the licenses was the settlement of litigation, the collection of damages for infringement, the obtaining of royalties, the fixing of a profitable price on the patented board, and the securing of the various advantages which would normally flow from the general manufacture and sale of the superior product. The primary purpose of the licensees in the signing of the licenses was the obtaining

> of the right to make the superior product, and the settlement or avoidance of litigation."

And that finding, likewise, was not disturbed in any respect by the Supreme Court.

So, I think that we may properly contend that the decree in this case, both as to the finding of law violation and as to its injunctive provisions, should deal only with the gypsum board which was the subject of the patent license agreements, and the subject of the price fixing under those patent license agreements.

Next, Article IV of the Government's proposed decree:

> "That the provisions of this decree applicable to any defendant shall apply to such defendant and to each of its officers, directors, agents, attorneys, servants and employees," and so forth.

[fol. 483] We have two questions with reference to that language. First, the applicability of this decree to individual defendants.

The individual defendants were not, in any sense, parties to the license agreements themselves. To be sure, as officers, representatives of their companies, they were active in the execution of the documents themselves. There is nothing in the combination by plurality of licenses that indicates any action on the part of the individuals, as such. Their only conduct was as officers, directors, or agents of the companies that they represented, and, consequently, it is our view that an injunctive decree, operating against those companies and their officers, directors, agents and representatives, whoever they may be, will of course cover those individuals so long as they continue in their capacity and will cover any other individuals who may replace them in that capacity. There is no place in the record, as we see it, for including injunctive provisions against the individuals, apart from their acts in their capacity as officers or agents of the companies.

The question raised by counsel for the Government with reference to Samuel Gloyd, we have dealt with by using the term "defendant companies" and "enjoin"—We have defined that term in Article II, subparagraph 1, " 'Defendant companies' shall mean all the corporate defendants and

Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company."

Chief Judge Stephens: Where is that? Oh, I see it; all [fol. 484] right.

Mr. Connelly: Now, the second provision of that section IV, your Honors, has already raised one question that was in our minds, which was the use of the word "attorneys." I take it that has been disposed of.

The additional provision of that paragraph is the use of the term "successors and assigns," simply because of the ambiguity and uncertainty attaching to that term.

Now, as we know, a decree of this kind is not automatically terminated at any dated. It continues in existence and perpetuity and there is no occasion on the facts of this case, as we see it, to talk at all about the possible effect of decree upon persons who are not parties to it.

As your Honors will note, we have, in effect, in our Article V, by the introductory language, attempted to take care of both the Government's proposed section 4 and the introduction to section 5, by use of the words "Each of the defendant companies and each of their respective officers," and so forth, "are hereby enjoined and restrained from:"—

The introductory portion of Article V of the Government's proposed decree contains several features which again introduce ambiguity, uncertainty, and we believe the possibility of going beyond the scope of this determination.

In the first sentence, the reference to "gypsum products" is not limited to "gypsum board," but the reference is to [fol. 485] defendants' activities in connection with the distribution of gypsum products.

Secondly, the term "planned common course of action" —a completely vague and uncertain term. To be sure, it has been used by the Federal Trade Commission in certain situations, but if such a term is ever proper and appropriate, it would be appropriate in a case of the vague and broad conspiracy to restrain trade and not appropriate to a case such as here, where the decision of law violation is predicated upon precise conduct, that precise conduct being the entering into and performance of these patent license agreements with price-fixing provisions.

Judge Garrett: Mr. Connelly, if I remember right, and if I am in error in this, please correct me, he stated in his

argument that there was no showing in this entire record that the manufacturer, under these licenses, was limited to the patented article. Is that correct?

Mr. Knuff: I think what your Honor has in mind is that I stated that there was no evidence in this record that any board was ever made under any of these patents.

Mr. Connelly: It was with reference to that statement that I referred your Honors, a few moments ago, to a certain finding of fact bearing on that question. Now, under section V of the Government's proposed decree are ten separately numbered subparagraphs. In general, I take it they are intended to deal with the question of fixing of prices and terms and conditions of sale. To the extent that they are [fol. 486] within the scope of the combination and conspiracy found here by the court on motion, I take it that they would be fully covered by the provision, paragraph 3, of the same article of our form of decree, which reads, after the preliminary introduction, "Each of the defendant companies and each of their respective officers," and so forth, are enjoined and restrained from:

> "(3) entering into or performing any agreement or understanding among the defendants or any of them in restraint of trade and commerce in gypsum board among the several states in the eastern territory of the United States by license agreements with minimum price provisions to fix, maintain or stabilize prices of gypsum board or the terms and conditions of sale thereof."

Now, to the extent that the paragraphs numbered 1 to 10 under that article go beyond that scope, then we submit that they are improper in a decision limited, as we understand this to be, and each one of those separately numbered subparagraphs 1 to 10 introduces something beyond the scope of the decision.

I should like to refer briefly to those additional features, on the chance that your Honors may wish to consider each one of them separately.

First, paragraph 1 enjoins against the fixing of prices, terms and conditions of sale. That is all right, but then it goes on to say "at which gypsum products shall be sold"—

the same definition of gypsum products going far beyond [fol. 487] gypsum board covered by the patent licenses and licensing agreements.

Secondly, the paragraph does not stop with the words "shall be sold" but goes on "or resold." There is the charge or implied charge of resale price maintenance as to which nothing in the record before this court justifies such a decree, and as to which the Supreme Court did not take any action whatever.

"2. To fix, establish, maintain, or make uniform"—again —"the kinds, types, or varieties of gypsum products"—failing to limit it to gypsum board, and, in addition, there is an additional feature in this situation:

The only evidence in the record, with reference to which any such provision about making uniform the kinds, types or varieties of gypsum products would be that relating to the open-edge board and to the No. 2 board and seconds.

Now, as I pointed out earlier, with reference to those charges in the complaint, the defendant made offers of proof specifically directed to establish that there wasn't any agreement among them to eliminate the production of open-edge board, nor was there any agreement between them to eliminate No. 2 board or seconds.

That represents a disputed area of fact which we submit this court should not, and cannot properly, determine on motion for summary judgment. Any such decree which would make specific an injunction against conduct which would be based solely upon a disputed issue of fact would [fol. 488-489] not be justified by the record itself.

Judge Garrett: Pardon me, there. That is an enjoining clause and proposes to enjoin them from doing that.

Mr. Connelly: Yes, sir.

Judge Garrett: The offer of proof was that if they hadn't done it, hadn't been doing it—We thought that came within the sphere of the Supreme Court's decision. That is what is wrong with this injunction here, or this enjoining here, the fact that they have not been doing it.

Mr. Connelly: That is precisely our point, if the Court please, that while a decree of court of equity may in certain circumstances enjoin the doing of some acts beyond those actually shown to have been done, within limits indicated

by what the defendants have actually done, it is certainly improper to enjoin conduct as to which there has not been a proper showing that injunction is required as a remedy which is required.

Does your Honor wish to suspend at this time?

Chief Judge Stephens: We will recess until tomorrow morning at 10 o'clock.

[fol. 490] IN THE DISTRICT COURT OF THE UNITED STATES
FOR THE DISTRICT OF COLUMBIA

HOLDING A THREE JUDGE COURT

Civil Action No. 8017

UNITED STATES OF AMERICA, PLAINTIFF

v.

UNITED STATES GYPSUM COMPANY; NATIONAL GYPSUM COMPANY; Certain-Teed Products Corporation;; The Celotex Corporation; Ebsary Gypsum Company, Inc.; Newark Plaster Company; Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company; Sewell L. Avery; Oliver M. Knode; Melvin H. Baker; Henry J. Hartley, Frederick G. Ebsary; and Frederick Tomkins, Defendants.

REPORTER'S TRANSCRIPT OF JUNE 14, 1949

Court Room, U.S. Court of Customs and Patent Appeals, Washington, D. C., Tuesday, June 14, 1949.

Oral argument upon the proposed findings of fact, conclusions of law, and decree, in the above-entitled cause was resumed at 10:00 a.m., pursuant to adjournment, before Honorable Harold M. Stephens, Honorable Finis J. Garrett, and Honorable Joseph R. Jackson, sitting as the District Court of the United States for the District of Columbia.

• • • • • • •

[fol. 491] PROCEEDINGS

Chief Judge Stephens: Proceed.

ARGUMENT ON BEHALF OF DEFENDANTS UNITED STATES GYPSUM COMPANY, SEWELL L. AVERY AND OLIVER M. KNODE—RESUMED

By Mr. Connelly:

Mr. Connelly: At the adjournment of court yesterday afternoon, I was in the process of discussing the various provisions of the plaintiff's proposed decree and had reached paragraph 4 of Article V of the proposed decree, which is quoted at page 3 of the columnar schedule, which was handed up to the court yesterday.

Paragraph 4 of this article enjoins the defendants from refraining from selling to or distributing gypsum products to any purchaser or any class of purchasers of such products. It is completely broad and unlimited in its scope.

The only charge in the complaint that might conceivably be related to that provision of the injunction is the provision of paragraph 45(d) of the complaint, supplemented by 94 and 95.

Judge Jackson: Did you say "d," Mr. Connelly?

Mr. Connelly: D. That charge is that the defendants concertedly refrained from distributing gypsum board, plaster, and miscellaneous gypsum products through jobbers in the eastern area—in other words, the charge in the complaint is not any combination or conspiracy to refrain from selling to this, that, or the other class of purchaser. [fol. 492] This is a charge that we concertedly refrained from selling jobbers in the eastern area.

Now, even to the extent that the proposed provision of the Government's decree should be limited to jobbers——

Judge Jackson: Why?

Mr. Connelly: I say "even if"——

Judge Jackson: Pardon me.

Mr. Connelly: My first point, of course, is that the provision is so broad without any limitation that it does not bear any relation to the issues in the complaint. Therefore, I assume that the court will not entertain such a provision

but will necessarily consider it only in relation to the issues actually presented in this case. That would present the issue of the alleged agreement to exclude jobbers from the industry.

Even as so limited, such a provision in the decree is, we submit, beyond the scope of this court's determination on the motion for summary judgment, because that represents a controversial issue of fact.

It was on that specific point we made offers to prove. We made offers to prove, paragraph 56, that the license agreements were not executed with any intent to eliminate jobbers, and that there was no agreement or understanding among the defendants or any of them to eliminate jobbers.

In other words, on that phase of the case there is controversy. It is not a situation as to which there is not any [fol. 493] issue and, therefore, not a situation which the court was in a position to pass upon in granting the motion for summary judgment.

Insofar as any effect upon jobbers or, indeed, any other class of trade in the gypsum industry may be thought to have followed from the issuance of the price bulletins under the license agreements and the specification of prices therein, the injunction striking down the price provisions of the licenses and striking down those bulletins will automatically carry with it protection, if any protection be needed, against any incidental consequences of those price bulletins.

Now, paragraphs 5 and 6—I deal with them together because they are parts of the same concept—introduce into this case or attempt to introduce into this case a brand new issue, and that is the use of the basing point method of pricing in the gypsum industry.

There was no allegation in the complaint that the defendants combined and conspired to use the basing point method of pricing. There is no support in the record for any such charge.

In that connection I might just refer at this time and then I will not take the court's time to do it each time in connection with each paragraph—if Your Honors will look at page 125 of the plaintiff's memorandum, the printed, gray-covered volume—with reference to each of the provisions, articles, and paragraphs of its proposed decree, the Government has a section in its memorandum describing the

[fol. 494] purpose of that provision of the decree and then pointing out—and this is at page 125 under the subdivision headed subparagraph 5 and 6, the findings supporting the enjoined conduct are findings 43, 68, and 71. Of course, that is a reference to the proposed findings submitted by the Government.

And, similarly, with other paragraphs of the proposed decree, they point out that these provisions of the decree require findings of fact dealing with the controverted issues in order to justify a decree.

Now, these are controverted issues. They are not conceded facts. When I said yesterday that it was our view that no findings of fact nor conclusions of law were required or should be made at all on this motion, that statement was made on the assumption that this court would be entering a decree limited to the admitted facts, limited to the statements made by the Supreme Court with reference to the plurality of licenses.

In other words, operating strictly under what the Supreme Court has stated in its opinion in this case. If the decree is so limited, then, in my view, nothing more is required in the way of findings and conclusions because the decree will show on its face the precise findings and limited findings that were made in order to support the decree and the provisions of the decree will be based on those findings.

But, if the decree is to go into each of these matters, which the Government asks this court to go into, and in-[fol. 495] clude provisions which presuppose findings of fact on these controverted issues, then I certainly concur in the view of the Government that this court would under those circumstances have to make findings of fact in detail on all of those controverted issues in order to justify provisions in its decree based upon those matters.

Now, as I say, I will not refer to that in each case because that same situation applies with reference to each of these provisions of the Government's decree and in each case, as the Government itself recognizes, some specific findings over and above what the Supreme Court has determined, some specific findings will have to be made in order to justify that kind of relief.

So far as the basing point method of pricing is concerned, that problem in any industry presents, as this court well

knows, vast problems, problems of such magnitude that it has frequently been said that perhaps they should not be determined by courts at all, but should be dealt with by the legislature on the basis not of a limited record in a private litigation, but on the basis of a complete survey of all of the economic considerations involved and a full opportunity to judge what is the proper way to handle it.

Certainly, it is not a question which may properly be dealt with by this court on this record, where there was no charge that the adoption of the basing point method of [fol. 496] pricing was pursuant to a combination or conspiracy, where there was no evidence introduced in that respect.

Judge Jackson: Pardon me for interrupting. If in a decree the defendants and all of them were restrained and enjoined from doing any of the things that would be violative of the Sherman Act, it would include the basing point, would it not?

Mr. Connelly: Yes, sir, and that illustrates in my mind the precise vice of the decree being proposed by the Government. To be sure, the various injunctive provisions of the Government's proposed decree deal with conduct which under the terms of the decree is unlawful conduct because it is all directed at collusive action to do certain things.

Judge Jackson: It would have to be collusive, of course, it would; but it seems to me that a general paragraph in respect to enjoining and restraining you would be sufficient to cover these specific subparagraphs you have just mentioned here.

Mr. Connelly: That would be one way of approaching it.

Judge Jackson: How would you get out of it? You would violate the order if you did this very thing.

Mr. Connelly: That is it. One way of approaching it would be to say since the defendants have been found guilty of a violation of the anti-trust laws, then the court may in its decree enjoin the defendants against any further future violation of the anti-trust laws.

[fol. 497] Judge Jackson: Surely.

Mr. Connelly: That approach has frequently—not so frequently in recent years, but used to be frequently before the courts, and the courts uniformly and consistently said that cannot be done—that cannot be done because that puts

the defendants at the risk of a contempt proceeding as to any future alleged claimed violation of the anti-trust laws.

Judge Jackson: Of course, it should be specific enough.

Mr. Connelly: It must be specific enough.

Judge Jackson: I am talking about this particular thing now you are talking about.

Mr. Connelly: In my view, it must be related to the violations actually found to have occurred.

Now, I think this very provision we are now discussing may provide a suitable illustration of the problem that we would be presented with.

The basing point method of pricing is one of a variety of business practices. It can be, conceivably, adopted by agreement, the parties get together to use it in some improper form, or it can develop as a result of individual, independent competitive action in the industry.

In any case where a business practice acquires widespread acceptance, there is always the possibility and, indeed, the likelihood that the Department of Justice will point to action throughout an industry and say there we [fol. 498] have uniformity of action throughout an industry, we are going to ask a court to draw an inference that that uniformity was brought about not fortuitously but by agreement; and if brought about by agreement, then that would be a violation of the anti-trust laws.

If that charge should be made—and I hope I can make my position clear on this—if that charge should be made at any future time, then the defendants are entitled to try out the issues presented in a plenary trial and not try it out or have it determined in a summary proceeding to punish defendants for contempt in violating this decree.

That is our point. There has been no day in court on the part of the defendants with reference to the question of the use of the basing point method of pricing. There is only one bit of testimony in the record—and that came in in an incidental fashion, it was not directed to that issue because the issue was not presented—but the testimony was at pages 2908 and 2909 of the transcript, that the bulletins issued under these patent license agreements in referring to a basing point or what may be described as a basing point method of pricing, merely continued a practice that had been in effect for many years before.

So that there is not anything in the price bulletins, there is not anything in the combination under the patent license agreements which could properly bring into issue the question of the original adoption of the basing point method of pricing.

[fol. 499] That is a question on which the defendants have not had an opportunity to be heard and they should not now be subjected to a decree which would presuppose that they had by agreement adopted that method of pricing.

Judge Garrett: Was there any assignment of error in the Government's appeal to the Supreme Court involving that question?

Mr. Connelly: No, sir. There was not anything before the Supreme Court involving that question.

The only thing that was said by the Supreme Court—no question of a finding or anything of that sort, but in reviewing the facts at page 17 of the slip opinion of the Supreme Court, purely a background statement of how this situation came about, the Court said:

> "Although the license contracts gave the licensor the right only to fix the minimum price at which the licensee should sell, United States Gypsum issued a series of bulletins"—that is what they are talking about, bulletins—"which defined in minute detail both the prices and terms of sale for patented gypsum board. They are printed on nearly a thousand pages of the record. The bulletins adopted a basing point system of pricing, according to which each licensee was required to quote a price determined by taking the mill price at the nearest basing point and adding the all rail freight from the basing point to the destination."

[fol. 500] In other words, just one of the provisions in the bulletin dealing with the prices, terms, and conditions of sale of patented board, but, I might say, to answer Your Honor's question specifically, that is all, that is the only mention in the Supreme Court opinion of the basing point method of pricing, and all that the Court was there saying——

Judge Garrett: My recollection is not clear about it. Did it hold that that was—did it making a holding?

Mr. Connelly: It made no holding whatever. It simply

referred to it in exactly the same way as it might have said the bulletins issued by the patentee specified the price at which gypsum board was to be sold, quantities, et cetera, down the line. That is all there is in the Supreme Court's opinion with reference to that.

Now, to the extent that this court believes that the issuance of the bulletins had any bearing with reference to the basing point method of pricing, again, the decree striking down the bulletins, any action of the defendants under the patent license agreements, automatically covers it.

If this court puts in its decree a specific provision enjoining the defendants from combining or conspiring to agree or to use the basing point method of pricing, that will necessarily presuppose a finding by this court that the basing point method of pricing was adopted by combination, conspiracy, agreement.

[fol. 501] That finding, we submit, cannot be made on the record before this court at this time without having any opportunity for the defendants to introduce evidence or, indeed, without having any evidence before the court on which such finding could properly be predicated.

Now, paragraph 7, page 4 of the schedule—counsel for plaintiff has described that as being the converse or the affirmative phase of paragraph 4. It simply states in somewhat different language, positive language, to use, determine, agree upon, or adhere to any basis for the selection or classification of purchasers of gypsum products.

As I have previously said with reference to paragraph 4, that, so far as the charge in the complaint is concerned, must be limited to the charge with reference to the elimination of jobbers, insofar as the finding here is concerned, it represents a controversial disputed issue of fact which should not be passed upon by the court at this time.

Paragraph 8—this is another illustration of this tremendously broad scope of the proposed decree—paragraph 8—the injunction operates "to use, determine, agree upon, or adhere to any methods, means, conditions, practices, or delivery points or areas used or to be used in selling, shipping, or distributing gypsum products."

Now, of course, I have already referred to this phrase "gypsum products." It is not even limited to gypsum board,

[fol. 502] which is the subject of the suit and which was the subject of the Supreme Court's decision.

But even if limited to gypsum board, it would be far too broad as a provision to be included in this court's decree. It affects any possible practice that might be adopted in the gypsum industry at any time in the future. If all they mean to attack by that, all they mean to reach by that, should be the terms and conditions of sale other than price, that is adequately, fully covered by the injunction against agreeing upon any prices, terms or other conditions of sale.

If it means something more than that, then I submit it is far too broad for inclusion in this decree.

Paragraph 9 deals with the question of policing prices.

Paragraph 10 deals with the question of holding meetings, conferences, et cetera, for the purpose of maintaining prices.

Again, both of those paragraphs are subject to the vice that they are not limited to gypsum board, they are limited to the gypsum industry without definition. But, beyond that, these matters are purely incidental to the question of fixing prices, a decree which strikes down the fixing of prices, which has been found to be wrongful here, will automatically cover any incidents thereto.

So far as the meetings are concerned, the record, I submit, is abundantly clear before this court that there were no meetings among the licensor and the licensees, except [fol. 503] (1) to explain doubtful provisions of the price bulletins and (2) to consider complaints of license violations.

In other words, meetings only with reference to action taken under the price bulletins, under the minimum price provisions of the patent licenses.

Now, Section 6 of the Government's proposed decree, with reference to compulsory licensing, we dealt with in large part yesterday in answer to questions by the court. There are just two or three additional points that I should like to cover here.

First, in the language of the Government's proposed decree, you will note that it reaches patents or patent applications now or hereafter owned or controlled by U.S.G., without any limitation so far as time is concerned.

Secondly, that the patents and patent applications re-

ferred to are those not confined to gypsum board, but relating to gypsum products of any kind.

In those respects, this compulsory licensing provision goes far beyond what the court held in the most extreme cases that we have had to deal with, which is the Hartford-Empire case.

Now, our position here is that there just is no resemblance between the facts of this case and the facts of the Hartford-Empire case. This compulsory licensing provision involves confiscation of private property, and we do not say that that may never be done. Of course, a court of equity has broad powers, and, certainly, the Hartford-Empire decision illus-
[fol. 504] trates the extreme extent of those powers in an appropriate case—and that was the case where the District Court held, and its holdings were affirmed by the Supreme Court, that all of these members of the glass industry there involved had been engaged in a scheme, a plan to fix prices and to keep out competition and had used these patents, which had been pooled together, not for the purpose of exercising any legitimate rights under their patents, but for the purpose of providing a disguise for their illegal purpose.

No one can read the opinion of Judge Kloeb in the District Court in that case without coming to the conclusion that the court there found that there was a complete absence of good faith on the part of the defendants, that the court there concluded that it was dealing with a group of people who were deliberate law violators and who were aiming precisely, specifically, and definitely to violate the Sherman Act, and in that situation it issued a decree which was so broad, indeed, that even the Supreme Court did not affirm certain of its provisions and directed the elimination of others.

Judge Jackson: Mr. Connelly, I do not believe anybody questions the good faith of the defendants here, because they thought they were acting under the authority given by the General Electric case. I was just wondering if Judge Reed just does not put you in the same spot that he put the defendants in the Hartford-Empire case.

[fol. 505] Mr. Connelly: There is nothing that I have seen in the opinion of the Supreme Court in this case which

suggests a conclusion that these defendants should be treated as were the defendants in the Hartford-Empire case.

Judge Jackson: I think on page 34 I saw something that made me think that.

Judge Garrett: The slip opinion?

Judge Jackson: Yes, the slip opinion, when he talks about the invalidity—he says here:

> "These licenses and bulletins show plainly a conspiracy to violate the Sherman Act."

Now, in the Hartford case they said there was a conspiracy to violate the Sherman Act, and as I said before, while nobody questions the good faith of the defendants in acting as they did in this case, does not the opinion of Judge Reed really put the same principles applicable to you that he applied there? That is the thing I would like to be cleared up on.

Mr. Connelly: I submit that he does not. To be sure, he reaches the conclusion that the industry-wide price control under patent licenses was invalid per se.

To the extent that he reaches a conclusion that conduct violates the Sherman Act, then, of course, that conclusion parallels in a sense every other case, every other determination in which other people have violated the Sherman Act.

Judge Jackson: He uses that rather opprobrious term [fol. 506] "conspiracy."

Mr. Connelly: That is of necessity because that is the language of Section 1 of the Sherman Act itself. He could not use anything else.

Judge Jackson: That was the conspiracy in the Hartford case, so held.

Mr. Connelly: That was. Our position here, as we interpret what the Supreme Court has said, interpret this court's construction of that, that here we have a situation where the acts of the defendants were all in good faith in the belief that all they were doing was merely protecting the rights of the patentee and that it was lawful to protect the rights of the patentee by issuing licenses with price control not only to one licensee, but throughout, to as many persons in the industry as desired to accept licenses.

Now, the Hartford-Empire situation did not stem from

that conduct and, of course, the court will have to have in mind the detailed facts of the Hartford-Empire case, which I do not want to take the time of the court now to go into, but that case had in general to do with a gathering of the competitive industry in the familiar smoke-filled room atmosphere: How are we going to establish a way to fix prices in this industry and keep out unwanted competition?

The documents, the memoranda that were written, all indicated that was the approach of the parties in that case. [fol. 507] Judge Jackson: They knew they were wrong and did it with malice aforethought, deliberately, premeditated?

Mr. Connelly: That is right.

Judge Jackson: They knew they were doing wrong.

Mr. Connelly: As the court there found. I am not myself attempting to pass judgment on what the parties were doing, but simply from the standpoint of what the District Court found that these people were doing.

The arrangement under which the patents were assigned to Hartford-Empire placed in a pool with the limitations that were there put upon it, was hit upon as a device for accomplishing the objectives which the parties to that combination knew or should have known were unlawful.

Now, the factual situations are just so entirely different in the two cases that I cannot——

Judge Jackson: They stem from different roots, but I am wondering, after all, if the patents are in the hands of one power to direct the actions of an industry, from there on is not the situation parallel?

Mr. Connelly: Well, the essential point of difference, which seems to me to be controlling in this case, is this: U.S. Gypsum Company has certain patents. Now, let us suppose it had never issued any of these licenses which are here under consideration. It had the power to exclude others from making its patented devices, it continues to have [fol. 508] that today so long as it preserves its patents.

That situation has not been affected by the combination itself. In other words, the right to exclude stems from its ownership of patents under the patent law, lawfully acquired.

In the Hartford-Empire case that was not true. Certain of the glass manufacturing companies had patents on one

kind of machinery, other of the companies had patents on others. If that combination, if the members of that combination had remained in competition one with the other, then glassware might have been made under one group of patents by one, under another group of patents by another, and so on. That possibility of competition through various devices of manufacturing glassware was destroyed when they got together and placed all of the patents in a single hand.

At that point there was no way of re-instating the competition that previously existed or previously had the opportunity of existing because the patents—with or without providing for compulsory licensing under the patents, because the patents had then, as the result of the combination, not as the result of lawful conduct, but as the result of the combination, been placed in the control of the Hartford-Empire Company, and there was no way in which anybody could make a single piece of glassware by machinery without infringing one or another of the patents held by Hartford-Empire. It was just not feasible for anyone to get into [fol. 509] that industry without some provision for licensing under those machine patents.

Here, to be sure, the monopoly is there to the extent that it attaches to the patents, but insofar as that monopoly exists by reason of lawful conduct on the part of the United States Gypsum Company, not by reason of unlawful combination, then this court should not confiscate its property unless it feels that its conduct in entering into these license agreements was in bad faith, indicated a propensity for law violation.

Now, I also in answer to Judge Stephens' question yesterday commented briefly upon our proposal in this connection and I will not, of course, repeat that. I stated that it did not involve any recognition on our part of any desirability or necessity for the kind of compulsory licensing we are dealing with in the Hartford-Empire situation; but I should like to add one observation to those I made yesterday, to explain why we make this suggestion in the form of the decree.

The Supreme Court did not characterize all of the patent license agreements in their entirety as illegal. The Supreme

Court characterized the price-fixing provisions of the patent licenses as illegal.

[fol. 510] In other words, if all the defendant U.S.G. had done was to issue a license on a royalty basis to each other member of the industry, I take it that nobody would contend there was anything illegal in that. It was inclusion of the price-fixing provisions that made it illegal.

Now, we were confronted with a mechanical problem in considering what to do about that. It could be treated in some situations by simply striking out the price-fixing provisions of the license agreements. That is what was done in the Line Material case, the Line Material decree, left the license agreements in effect so far as the right granted to the licensee to make the product, so far as the royalty provisions are concerned, and the like, and simply eliminated by decree from those license arrangements the price-fixing provisions.

That could be done there because the form of the license agreement was such that there was no room for ambiguity, it was a specific provision or portion of the license that were readily identifiable; and that left in effect the right of the licensees to continue to make the patented products.

In this situation the form of the license agreements did not seem to lend itself to that kind of treatment, and in order to give effect to the conclusion that the price-fixing provisions were illegal, it seemed, to us at least, that the only way to deal with that problem was to cancel the agreements in their entirety and to provide for a new agreement iden-

[fol. 511] tical or substantially identical with the old, except for the elimination of price-fixing provisions.

Judge Jackson: You have not submitted a form of that license, have you?

Mr. Connelly: I was coming to that here. On the theory that it would be an imposition upon this court and also lead to lengthy and unnecessary proceedings to be coming back to this court at various times in the future to determine whether provisions of license agreements were proper, reasonable, and the like, we have prepared forms of license agreement, which we conceive to be unobjectionable in any respect, eliminating any provision of the prior license agreements that has been attacked, price-fixing provisions, and others. I will hand this up to the court.

Chief Judge Stephens: Have you handed one to Mr. Knuff?

Mr. Connelly: Yes.

Judge Jackson: Do you desire, Mr. Knuff, to furnish a copy of license agreement of the type that you provide for in your compulsory licenses?

Mr. Knuff: If the court wants us to, we will.

Judge Jackson: I was just wondering. If you care to. you may.

Mr. Knuff: I did not hear you, Your Honor.

Judge Jackson: I say if you care to, you may.

Mr. Knuff: May I consider it without giving an answer [fol. 512] right now?

Judge Jackson: Oh, certainly.

Chief Judge Stephens: It would be a very great convenience to my colleagues, I should think, if the Government did furnish it. Otherwise, my two colleagues have to sit down and draw a license agreement if they should conclude that the suggested plan for a license agreement, if they should conclude that the form of suggested license agreement which you have in mind in your proposed decree, Mr. Knuff and Mr. Steffen, is enforceable; but, having no form in hand evidencing it, they will have to draw it themselves and then that will require more proceedings.

Mr. Knuff: I would not think they would have to draw it, Your Honor. They could do as I suggest in the decree.

Chief Judge Stephens: Well, they would in effect have to, Mr. Knuff, because if they simply put those terms in the decree and then the parties draw a license agreement in respect to which they are in dispute with the Government as to whether it conforms to the decree, they will have to come back to the court again for a hearing on whether or not the license agreements under which you are operating are in conformity with the decree of the court.

I had supposed that both sides, after reading over these papers, I had supposed that both sides would present proposed forms of license agreements. However, you are not required to do so.

[fol. 513] Mr. Connelly: I might suggest that perhaps it would be of help to the court if counsel for the plaintiff would examine the form of license agreement which we have prepared, and I feel almost certain that they shall

have no reasonable objection, at least, to any provision contained in that form of license agreement.

Now, I have stated, perhaps at greater length than need be, our position with reference to compulsory licensing generally, and I have indicated at least specific objections to the very broad features and provisions of this section of the decree proposed by the Government.

The next section of the Government's decree, Article 7, appears at page 7 of the schedule.

Judge Jackson: How about those that you are skipping, Mr. Connelly?

Mr. Connelly: I have said I certainly have objections to the language, certain of the language included in those subparagraphs.

Judge Jackson: For the same reason that you gave as to subparagraph 1?

Mr. Connelly: There are certain other detailed reasons. My hope, of course, is that this court will conclude that there is no occasion for the kind of compulsory licensing proposed by the Government. If it so conclude or, rather, should conclude that such provision should be adopted in [fol. 514] substance, then I think from what I have heretofore said about its application, what I have heretofore said with reference to paragraph 1, without going through in detail the other paragraphs, that will indicate the same kind of objection applicable in those other subparagraphs as well without taking time to go through them specifically.

Judge Jackson: Your paragraph in Roman numeral VI, in your opinion, is what should be done with respect to the subject matter of 6 as proposed by the Government, is that it?

Mr. Connelly: In its entirety with all of its subparagraphs, yes, sir.

Now, Section 7 of the Government's proposed decree, appearing at page 7 of the schedule, provides for the cancelation of the patent licenses. There is no difference in substance in view between us on that score. As we indicated at page 7 of the schedule, or Article 4 in paragraph 1, it declares the minimum price provisions illegal and, too, provides for the immediate cancelation and termination of the patent licenses.

Judge Jackson: Should not that be Article 7 in your column? Your last one is 6.

Mr. Connelly: For the purposes of the court's convenience, we have rearranged the articles of our form of decree in order that they may be seen as they correspond to the Government's.

Judge Jackson: I see.

Mr. Connelly: I might say in that same connection, in our form of decree provision is made for immediate can- [fol. 515] celation and termination of the patent licenses. We provide against the possibility that any present licensee might thereby be adversely affected by leaving a space in the form of license agreements, which we have just handed up to the court, to insert the effective date of that form of license agreement, which we would assume would correspond to and be identical with the effective date of the decree; so that the licensee would at all times be protected by the rights that they have to make the patented products.

Now, the second paragraph of the Government's Section 7 is substantially the same as our Article 5, paragraphs 1 and 2, where we strike down the patent license agreements and enjoin the defendants from reinstating them.

Article 8 of the Government's proposed decree contains an injunction against tie-in sales. Note, if Your Honors please, this is a provision directed against each of the defendants. I submit that this is a completely fantastic provision to include in this decree.

The plaintiff itself concedes at page 146 of its memorandum, about eight lines down from the top:

> "In what follows we will demonstrate that the provision is a proper one although there was no evidence introduced relating to tie-in sales."

Judge Jackson: What page is that on?

Mr. Connelly: 146.

[fol. 516] Judge Jackson: The last sentence of the paragraph?

Mr. Connelly: The last sentence. In other words, this court is being asked to include an injunctive provision in its decree, not only without any charge in the complaint of the conduct attacked, but without any evidence in the rec-

ord whatever to support it and nothing in the Supreme Court decision, may I add, to support it.

Section 9 of the decree in like manner deals with the question of non-discriminatory sales. Again, I might break that down into two possibilities. I am not entirely clear whether by that the Government means to require the defendants to sell to persons who may apply therefor, or whether it means merely that the defendants shall not discriminate.

In either event, there is no charge in the complaint which would support any such provisions, there is no basis in fact for the conclusion of such a decree here.

Now, again, I have the same comment that I made before and will not therefore repeat here, the plaintiff's memorandum indicates under each of these sections various of its proposed findings of fact, which would have to be made in order for this court to include these provisions in the decree. I certainly concur in that.

If the court is going to include those provisions, it will have to make the plaintiff's suggested findings of fact; and if the court does that, it will be making those proposed find-
[fol. 517] ings of fact on disputed issues of fact as to which the defendants have not been given an opportunity to submit proof.

Section 10 of the Government's decree, the same situation, provides an injunction against acquiring the assets, stock, and so forth, of the other defendants or of competitors.

Of course, under some circumstances that might be unlawful conduct, but our point is that that was not an issue in this case. That is not dealt with in a charge in the complaint. While, to be sure the pleadings admit certain mergers and allegations alleged in the complaint, there is no record made with reference to the competitive situation or with reference to the effect upon competition of any such mergers or consolidation, and it is wholly outside the scope of any determination that the court might properly make of this case here.

Like other provisions of the decree, in other cases, against other factual backgrounds, it might be entirely appropriate, but it is not appropriate and it is not justified by the record before this court at this time.

Section 11 of the Government's proposed decree deals with the right of inspection that the Department of Justice always likes to put in these decrees. There is nothing really troublesome about it, except that there is no occasion for it. There is nothing in the record of this case which indicates any inability on the part of the Attorney General to obtain whatever information he desires, and there is not anything [fol. 518] in this case to indicate any unwillingness on the part of the defendants, not only to comply with the specific provisions of the decree, but to provide such information as the Attorney General may properly request.

If in spite of the defendants' objection to that proposed provision of the decree, this court concludes that it should grant the Government that relief, then I would like to suggest one amendment to the paragraph in addition to that which counsel for the Government made yesterday.

In the first sentence, where it begins, "That the Attorney General of the United States or his proper representatives shall for the purpose of securing compliance with this decree," I would like to suggest the striking out of the word "shall" after "representative," and then after the word "decree," "securing compliance with this decree," to insert "and for no other purpose, shall, upon written request of the Attorney General——

Judge Garrett: Will that harmonize there? It begins: "That the Attorney General of the United States or his proper representative shall"—and you are striking that—"proper representative, for the purpose of securing compliance with this decree, and for no other purpose, shall, upon written request of the Attorney General——"

Mr. Connelly: "Of the Attorney General," yes, sir, as distinguished from any other representative of the Department of Justice.

[fol. 519] Judge Garrett: The Attorney General would not make a written request of himself, I guess.

Mr. Connelly: It would be in his name, of course.

Judge Garrett: Very well. "Shall, upon written request of the Attorney General——"

Mr. Connelly: "—addressed to any defendant at its principal office."

The only purpose of that suggested amendment is so that any acts that may be taken pursuant to this provision, if

the court should adopt this provision of the decree, would be sure to come to the attention of the proper officials of the company and not be dealt with in some branch office or in some manner in which the defendant was not properly apprised of what the Attorney General sought to do.

Paragraph 12 needs no special comment. We have not, as suggested by counsel for the plaintiff, made any suggestion that costs should be taxed against the Government. Of course, that cannot be done. We have, however, recognition of the fact that this court has a discretionary power with reference to the awarding of costs and in effect asked the court to exercise that discretion in favor of these defendants found guilty of law violation, but only on the basis of good faith action on their part.

Chief Judge Stephens: You suggest that there should be some apportionment among the defendants of such costs as [fol. 520] are imposed?

Mr. Connelly: No. The blank percent is a provision merely to suggest that the court may omit in whole or in part the costs to be taxed against the defendants.

Chief Judge Stephens: I guess it was the Government's suggestion as to costs. I saw a suggestion among the papers here that the costs be apportioned among the defendants. Did you make that?

Mr. Knuff: No, indeed, Your Honor. It might be a good idea, that the court apportion all the costs among the defendants.

Judge Jackson: Let them get together in a meeting and say what they ought to pay, whatever it may be. Have you any suggestion as to what percent should be put in here?

Mr. Connelly: I would consider it presumptuous for me to make such a suggestion.

Judge Jackson: Well, how in the world can we do it? Should we toss up a coin and say, "Heads, 20, the other 50," or what?

Mr. Connelly: The court has power to refrain from taxing any costs against the defendants. The court has power to tax a portion of the costs, any fraction that may seem desirable; and, as I say, I should not want to be in the position of suggesting to Your Honors how that discretion should be exercised beyond calling to Your Honors' atten-

tion the fact that this is a case where that discretion may properly be exercised.

Judge Jackson: It could be a judgment entered without costs.

[fol. 521] Mr. Connelly: Yes, sir. As to Section XIII of the proposed decree with reference to the retention of jurisdiction of the cause, the differences between the Government's decree and the form of our decree are very minor.

Judge Jackson: Judge Stephens just suggested that probably we ought to know what the costs are going to be. We do not have the remotest idea. I suppose somebody could give us a notion on that. Or can you at this time?

Mr. Connelly: I am sorry, I am not personally in a position to do that. I do not know.

Judge Jackson: And you, Mr. Knuff?

Mr. Knuff: No, I am not, Your Honor.

Chief Judge Stephens: Can you give us any general estimate? Would it run into hundreds of thousands of dollars or a few hundreds of dollars or a few tens of thousands? What sort of costs does the Government presume—suppose the majority of the court decides to tax costs against the defendants rather than leave each party bear its own costs? What costs would the Government file against the defendants?

Mr. Knuff: Well, we would file everything that we can properly tax in this case. Now, I grant you that that is not a specific answer, but I have not gone into what can be specifically taxed. We will tax everything that we can.

Chief Judge Stephens: You cannot make any estimate at all, even very large figures?

[fol. 522] Mr. Knuff: It would be just a guess, Your Honor, because I have not gone into it all.

Chief Judge Stephens: Thank you. Proceed, Mr. Connelly.

Mr. Connelly: The two provisions with reference to the retention of jurisdiction differ in only minor respects. In the Government's proposal, line 5 in the schedule, reference is made to any other person, firm, or corporation that may hereafter become bound. That seems to me to leave open a question which should not properly be before this court. The only persons who are not now identified or

identifiable who could conceivably be bound by the provisions, the injunctive provisions of the decree, are the officers and directors of the defendant companies as they become officers and directors.

The second provision that we object to in that clause is the last five words thereof, where jurisdiction is retained for the enforcement of compliance therewith and the punishment of violations thereof.

Now, obviously, the retention of jurisdiction for the enforcement of compliance includes any questions of punishment, but having in mind what we conceive to be our position in the case, as technical violators, if you will, of the anti-trust laws, but with no intention so to act, and certainly without any indication on our part that we are not going to comply to the utmost and in the best of faith with any provisions of the decree as finally entered, it just seems [fol. 523] to be an unnecessary addition to talk about the punishment of violations.

Now, paragraph 7 of the form of decree suggested in our form, with part of which the Government is apparently willing to go along, as Article 14 of its proposed decree, represents an attempt to be somewhat specific in excluding from the area in which the decree is operative, areas in which the decree should not be urged as being operative.

Now, Your Honors, I might say there is no specific situation that I have in mind in referring to acts and operations of the defendant outside the United States, but we also have in mind that this is a decree which will be governing the lives of these businesses for years to come. The anti-trust laws operate against conduct affecting interstate trade or commerce and also trade or commerce between the United States and foreign nations.

Over and above that is an area of trade which the United States anti-trust laws do not purport to reach and presumably could not reach, and that is to say trade wholly between foreign nations not affecting trade here.

As Your Honors also know, there are many, or at least some foreign countries wherein under the laws of those countries themselves some action must be taken with reference to price which, if taken in this country and relating to United States trade or foreign trade, would constitute a violation of the anti-trust laws.

Therefore, to provide against that possibility, we think it [fol. 524] appropriate to exclude from the provisions of this decree defendants' acts and operations outside the United States or acts inside relating exclusively to acts without the United States.

That provision is substantially identical with the provisions contained in the decrees entered in United States against Bausch and Lomb, 321 U.S. 707; in U. S. against Line Material Company, the decree referred to by our friend yesterday; and also in United States against Hartford Empire Company.

The second portion from the semi-colon on in our Article 7 I take it is agreeable to the Government, and, therefore, we need not comment further with reference to that.

Now, in dealing with these various specific terms and phrases used in the Government's proposed decree, I have felt it appropriate to point out specific respects in which I think the Government's proposed decree is improper. I do not wish to be understood as limiting the objections to the specific terms, the definitions, and so forth. Our objection is a fundamental one that goes to all of the provisions of this decree that go beyond what we conceive to be the proper scope of the court's determination on motion. There is no question about the power of the court to include the kind of provisions we are here discussing in its decree if the case is appropriate to those provisions.

Our point is that the facts of this case do not either require them nor do they justify them.

[fol. 525] It is no answer, as I said a moment ago, no answer to our objection, to say, "Well, after all, the conduct enjoined is illegal conduct, why should you object to it?"

It is always true that in the preparation of these decrees the lawyers from the Department of Justice—apparently also from some of the law schools—want to get into the decree every conceivable violation of the anti-trust laws that they might attach to some conduct on the part of the defendants.

It is also true that businessmen must live under this decree and under these decrees for years to come and questions will arise, if they do arise, under circumstances that none of us here can reasonably foresee and foretell. Our

point is as to any matter which was not directly involved in this court's decision, which was not based upon the facts of this case, ought not to be included in the decree. If any charge is made against us in the future that our conduct has been collusive and, therefore, wrongful in other respects, respects other than the patent license agreements, then we want—and I submit we are entitled to—an opportunity to try those questions out in a plenary suit and not on summary proceeding to punish us for contempt.

I submit further that the guiding principle that should control the court's action in framing its decree is that the punishment should fit the crime. That is the principle which we attempted to follow in preparing the form of decree which we have submitted as Exhibit A to our memorandum. [fol. 526] The heart of that decree is in Article V. It is page 2 of the schedule. That enjoins:

> "Each of the defendant companies and each of their respective officers, directors, agents, employees . . . are hereby enjoined and restrained from:
>
> "(1) the further performance or enforcement of any of the minimum price provisions of the Patent Licenses, including any price bulletin issued thereunder."

That strikes down the present licensing set-up.

> "(2) entering into or performing any agreement or understanding among the defendants or any of them for the purpose or with the effect of continuing, reviving or reinstating any of the minimum price provisions of the Patent Licenses."

In other words, we cannot do anything in the future to reinstate this arrangement which is now being stricken down.

> "(3)—this is the one that covers any other future arrangement that might be made—"entering into or performing any agreement or understanding among the defendants or any of them in restraint of trade and commerce in gypsum board"—it is limited to that —"among the several states in the Eastern Territory of the United States"—that is the charge of the com-

plaint—"by license agreements with minimum price provisions"—that is the means which we have used—"to fix, maintain or stabilize prices of gypsum board or the terms and conditions of sale thereof."

[fol. 527] That, we submit, is all-inclusive to cover any possible violation that may be found here.

Your Honors, of course, will ask: Well, now, does that cover everything that the Supreme Court has said on the basis of which this court has acted? Because it goes to the very heart of the case—I have only a few more minutes to take, if Your Honors will indulge me. I would like to risk some brief repetition just to call Your Honors' attention now in the light of what I have just said to these statements by the Supreme Court in an attempt to demonstrate to you that what I have just read from the form of decree which we have submitted covers fully everything that the Supreme Court has passed upon on the basis of which this court has granted motion for summary judgment.

[fol. 528] Chief Judge Stephens: Before you enter upon that concluding part of your argument, we will take a fifteen-minute recess.

(Short recess)

Chief Judge Stephens: Proceed, Mr. Connelly.

Mr. Connelly: At the recess I was just about to ask the court to look again at the precise statements made by the Supreme Court to test the propriety of my statement that in our form of decree we had fully covered what the court dealt with.

The first reference, just in passing, at page 6 of the slip opinion, page 371 of 333 U.S., towards the bottom of that page, just before the statement, "Up to this point there is no dispute as to the facts," that begins the paragraph at the bottom of the page. In the preceding pages the court has been reviewing what it describes as the undisputed facts, the area in which this court presumably acted in granting the motion for summary judgment; and the court there said:

"In that year"—that is to say, 1929—"two sets of license agreements were signed in which United States

> Gypsum licensed all but two companies manufacturing gypsum board in substantially identical terms and from that date United States Gypsum has maintained rigid control over the price and terms of sale of virtually all gypsum board."

In other words, limited to price, terms of sale, and it is [fol. 529] limited to gypsum board, not "other gypsum products."

Next at pages 389 of 333 U.S., page 23 of the slip opinion, at the bottom of the page in the slip opinion, the sentence begins, "To us, these facts"—that is to say, the facts just recited with reference to industry-wide license agreements, price control, adherence with knowledge—"these facts are proof of a conspiracy. Certainly they are overwhelming evidence of a plan of the licensors and licensees to fix prices and regulate operations in the gypsum board industry."

Continuing thereafter:

> "If the District Court had thought that a plan such as is evidenced by the license agreements and the bulletins was illegal under the Sherman Act, it might have had a different conclusion on the question of the admissibility of the declarations of some appellees against all. Its position"—that is to say, the position of this court in the prior trial—"stemmed logically from its understanding of" . . . the General Electric case.

And, again, at page 27 of the slip opinion, near the top of page 393 of the other volume, just a single sentence——

Chief Judge Stephens: What page of the slip opinion?

Mr. Connelly: Twenty-seven, about the middle of the page of the slip opinion, a single sentence reading:

> "The license agreements and the bulletins establish the conspiracy of the licensor and each licensee to [fol. 530] violate the Sherman Act."

And, lastly, at pages 34 and 35 of the slip opinion, beginning at the bottom of page 34, "The General Electric case affords no cloak"—that appears near the bottom of page 400 of 333 U.S.:

> "The General Electric case"—this is the conclusion, this is the statement of law announced by the Supreme

Court on the basis of which this court has granted summary judgment—"The General Electric case affords no cloak for the course of conduct revealed in the voluminous record in this case. That case gives no support for a patentee, acting in concert with all members of an industry"—I am pausing there for a moment —that reference, in the light of what the Supreme Court has previously said, is clearly to all members of the gypsum board industry because that was the only state of facts before the court and the only one to which it was directing its attention. Continuing the quotation——

Chief Judge Stephens: Did you read the word "board" in there, Mr. Connelly? Did I so understand you?

Mr. Connelly: No.

Chief Judge Stephens: Excuse me.

Mr. Connelly: Continuing with the quotation:

"—to issue substantially identical licenses to all members of the industry under the terms of which"——

[fol. 531] then the language continues——

"the industry is completely regimented, the production of competitive unpatented products suppressed, a class of distributors squeezed out, and prices on unpatented products stabilized."

Those references to competitive unpatented products, to distributors, are all modified by the language "under the terms of which."

In other words, under the terms of the license agreements themselves, that is all that the court was talking about or considering in its language here with reference to the other matters. Then the court continues:

"We apply the 'rule of reason' of Standard Oil Company v. United States, 221 U.S. 1, to efforts to monopolize through patents as well as in non-patent fields. Even in the absence of the specific abuses in this case, which fall within the traditional prohibitions of the Sherman Act"—pausing there.

The reference there to the specific abuses, the traditional prohibitions, those are dealing with the areas of disputed facts, not the facts which were admitted as to which there was no issue on motion for summary judgment.

In the absence of all of that, the court continues:

> "—it would be sufficient to show that the defendants, [fol. 532] constituting all former competitors in an entire industry"—and, again, parenthetically, the Supreme Court is talking in terms of the board industry —"had acted in concert to restrain commerce in an entire industry under patent licenses in order to organize the industry and stabilize prices. That conclusion follows despite the assumed legality of each separate patent license, for it is familiar doctrine that lawful acts may become unlawful when taken in concert."

That conclusion is predicated upon a conclusion in the Masonite case, which the Court proceeds then to discuss.

In other words, all of these pronouncements of the Supreme Court, which the construction of the majority of this court has determined justified the granting of a motion for summary judgment, which this court has determined to justify the conclusion, we can disregard any and all proof that the defendants might put in because that would not change this court's conclusion with reference to the basic proposition. All of that relates to the issuance of industry-wide patent licenses with the price provisions and the bulletins issued thereunder.

Now, the reference at the end, in connection with the final conclusion of the Supreme Court in this respect to the Masonite case is of some interest. There, as Your Honors will recall, is a similar situation in this respect: in that the Masonite Company had issued del credere agency agree- [fol. 533] ments to an entire industry. Each one of those agreements, taken by itself, was admittedly lawful, just as in our case each one of our patent license agreements with price fixing was admittedly lawful.

Nevertheless, the court held that the effect of the combination, plurality of the several agreements, each one by itself lawful, when it reached the point of covering an entire industry, that achieved a situation which the Supreme Court

regarded as unlawful, as a violation of the Sherman Act, not the traditional Sherman Act violation but a violation which was in a sense newly announced by the Supreme Court at that time.

Because of that analogy to the situation in our case, it seems to me that the court might well be interested in the decree entered in the Masonite case. From what I have already said I think Your Honors will understand that in my view each case must be taken individually, that no two cases are precisely analogous, and that the relief to be accorded must be tailored to fit the needs of the immediate case.

Nevertheless, to the extent that any analogy may properly be made, the closest certainly to the facts of this case and the decision of the Supreme Court in this case is its decision in the Masonite case and I, therefore, have here a copy of the final decree entered in that case, copies of which I should like to hand to the court at this time, not with the idea that I shall take any time to discuss its provisions, but merely that with that decree before you, Your Honors will, [fol. 534] I believe, find it support and very compelling support for the proposition which I have here asserted.

That is, that the form of decree proposed as a part of our memorandum affords adequate relief, full measure of relief, to the Government in this case to deal with the precise violations of law of which we have been found guilty.

Chief Judge Stephens: Mr. Connelly, I am not quite clear with reference to one aspect of your argument. Do you concede that the admitted facts in this case, upon which my colleagues have granted the motion for summary judgment, include the existence of a plan to blanket the industry for patent licenses?

Mr. Connelly: No, sir.

Chief Judge Stephens: I assume you did not. In some of your reading here of this I got a different impression.

Mr. Connelly: Perhaps I should qualify my answer in this respect. To the extent that the Supreme Court considered the agreements themselves, the plurality of agreements a plan in and of itself—and I think the Supreme Court opinion is susceptible of that interpretation—and, of course, since we admit the agreements in the plurality, we admit what the Supreme Court has described as a plan; but

beyond that, certainly that is a highly contested issue and one which was specifically dealt with in our offer of proof.

Chief Judge Stephens: You stand on the same position, in other words, that the defendant took throughout the trial [fol. 535] of this case?

Mr. Connelly: Precisely.

Chief Judge Stephens: That there was no action in concert or plan to blanket the industry with patent licenses.

Mr. Connelly: Beyond the mere——

Chief Judge Stephens: That is still in the realm of contest?

Mr. Connelly: Yes, sir.

Judge Garrett: I understood the Chief Judge to ask if you conceded the findings of fact made by the Supreme Court, which at least two members of the Court thought were findings of fact, if you conceded them. I understand, of course, that you are contesting any decree that goes beyond that which we construed the Supreme Court to have held upon the facts as you have conceded, I believe, in four instances here.

I do not know if I am making myself clear.

Mr. Connelly: You are speaking now of our concession that the patent license agreements were entered into, that they contained price fixing provisions, that bulletins were issued thereunder, that the parties adhered to those price provisions with knowledge of the adherence by others?

Chief Judge Stephens: And that they were industry-wide.

Mr. Connelly: Industry-wide, yes. I am sorry that I left that off.

Judge Garrett: And the Supreme Court held that, as a [fol. 536] matter of law, to be a violation of the Anti-trust Act.

Mr. Connelly: We understand that to have been Your Honors' determination, Your Honors' construction of the Supreme Court's opinion in that respect, yes, sir.

Judge Garrett: May I ask you: Do you construe it differently?

Mr. Connelly: That involves the entire question presented on the motion for summary judgment, which, of course, we did oppose on the basis of a different construction.

Chief Judge Stephens: You are not assuming to re-argue that?

Mr. Connelly: That has all been decided.

Chief Judge Stephens: You are not deviating from Mr. Bromley's position?

Mr. Connelly: That is correct.

Chief Judge Stephens: Your position, as I understand it, is just what it was when you opposed the summary judgment on the motion, that a mere plurality of patent licenses with price fixing provisions industry-wide adhered to by the parties is not ipso facto a violation of Section I of the Sherman Act.

Mr. Connelly: That is correct. We are simply not arguing that here because that has been decided against us before.

Judge Jackson: That was the theory——

Chief Judge Stephens: My colleagues have taken the position, as I understand it, that that does constitute under [fol. 537] the opinion of the Supreme Court a violation of the Sherman Act, that that is ipso facto, as a matter of law, action in concert, a conspiracy, to use the vernacular of the Sherman Act. You contended at the time you contested the summary judgment motion that the Supreme Court had not so held, and you contended on the motion for summary judgment that that was not the law.

Mr. Connelly: Precisely.

Chief Judge Stephens: The other defendants may choose their own order of appearance. It seems to have been chosen.

Mr. Finck, you may proceed.

Argument on Behalf of Defendant National Gypsum Company

By Mr. Finck

Mr. Finck: If Your Honors please, the other defendants have agreed upon a time schedule and the order of their appearance, and may I hand this up to the court? We

would like to be held strictly to the time so that every one of us will have an opportunity.

Chief Judge Stephens: This time schedule seems reasonable to the court. National Gypsum, one-half hour; Certain-teed, fifteen minutes; Celotex, twenty minutes; Ebsary, ten minutes; Texas Plaster, Mr. Gloyd, five minutes; Newark, one-half hour. You have come a long way, Mr. Johnston, to speak for five minutes. You have come a long way from Arkansas to speak for five minutes.

Judge Jackson: Of course, that is the maximum time. If you finish in less time than that, you will not compel the [fol. 538] court to have you continue.

Mr. Finck: I hope to.

Chief Judge Stephens: Proceed, Mr. Finck.

Mr. Finck: May it please the court, the defendants, National Gypsum Company and Melvin H. Baker, have filed a separate memorandum in opposition to the plaintiff's proposed findings, conclusions, and decree.

We have not had an opportunity or, at least, we did not feel that we should file objections to the proposed findings of fact and conclusions of law and also to the decree submitted by the defendant, United States Gypsum Company. We thought that that might just confuse the issues here, but we would like an opportunity to enter and file some reply to the submission that they have made.

Chief Judge Stephens: Say that again, Mr. Finck, will you, please. I was occupied with the time keeping and did not get all your statement.

Mr. Finck: Well, we have filed a memorandum in opposition to the Government's proposed decree and findings of fact and conclusions of law. We have not had an opportunity to file any opposition to the proposals of the U.S.G.

Chief Judge Stephens: I see.

Mr. Finck: We feel there are some differences of opinion and broad, wide differences of opinion. We think we ought to be permitted to file a memorandum with respect to our [fol. 539] differences sometime between now and August 1.

Judge Jackson: That is a long time.

Mr. Finck: Well, this is vacation time, and we have gone along for several years in this matter. I should think that we would have that opportunity. We are widely separated, the vacation period is on, and the other defendants or the

other licensees might want to have some conference with respect to just what we want to do. We have not had a conference, we have not decided whether we want to file anything or not.

Chief Judge Stephens: When was the proposed decree of U.S.G. filed, Mr. Connelly?

Mr. Connelly: March 4, 1949.

Chief Judge Stephens: I see.

Mr. Connelly: The memorandum filed by National was filed after receipt of this. I must say, speaking for the United States Gypsum Company, I cannot see any possible justification for imposing upon this court or upon the defendants for further opportunity to deal with something that has been before all parties since March.

Mr. Finck: If the court please, we will try to take it up right here. We may find no necessity for it.

However, we did feel that it was an imposition on this court. We were treating with the proposals of the Government here, not with any proposals of the United States Gypsum Company. We all had the opportunity to make our [fol. 540] statements and file our memoranda in March, and it is true that we have had it, we have had time to submit it, but it seems to me that it would only confuse the issues here, and if we should have an opportunity, why, it is all right.

Judge Jackson: If you can make yourself clear, do it here, and it will be in the record.

Chief Judge Stephens: Of course, we must conclude this hearing today if we have to sit tonight.

Judge Jackson: I am not going to sit tonight.

Chief Judge Stephens: It seems to me, Mr. Finck, that we ought to get this matter disposed of and disposed of shortly. At least two members of the court will be away during the summer. I expect to be here, but I think Judge Garrett will be away. I am not so sure of that. I know Judge Jackson is going to be away all summer, and we will not be in position to act as a court again in this case until next fall.

I had thought that one of the reasons why the time extensions were granted here to the defendants was so that they might confer with each other with respect to the proposed findings of fact and conclusions of law and decree and come to some unified position, if they could do so.

I should think we ought not to extend time unless it is absolutely necessary for you to file a brief as late as August.

It has been the intent of my colleagues, I am sure, to get this decree and such findings of fact and conclusions of law [fol. 541] as they see fit to enter disposed of before the first of this coming month of July.

Mr. Steffen: May I ask a question, Your Honor?

Chief Judge Stephens: Mr. Steffen.

Mr. Steffen: I am not quite clear from Mr. Finck's statement as to the issues that he feels he would like to make a showing upon, but if they have to do with the proposed licenses, I think that there will be a number of points that will have to be negotiated: the amount of the royalty, what patents are to be covered, and things of that sort. If that is one of the things upon which you would like to be heard——

Mr. Finck: It certainly is one of the things.

Mr. Steffen: It cannot be handled in five minutes, I am sure.

Mr. Finck: That idea that I propound at the moment has just come to me. We have not thought about it, I have not talked with any of the others about it.

I think, though, there are differences here which must be negotiated and which we must be able to present to this court in order to get a fair and just decree.

Judge Jackson: Negotiation on what? What for?

Mr. Finck: Licenses and as to the method that they are to be compelled to give us licenses. That is issue 6 and 7, which I will argue right now.

Judge Jackson: You are a licensee, are you not?

[fol. 542] Mr. Finck: Yes, I am.

Chief Judge Stephens: Your proposed license agreements, Mr. Connelly, do they include provision for royalty?

Mr. Connelly: Yes, sir, and counsel for all of the licensees have been furnished with copies of the proposed licenses.

Judge Jackson: I am just wondering of what concern to the court is that, as to what the royalties are? That is something to hash out between you, is it not?

Mr. Finck: No, I do not think we can.

Chief Judge Stephens: I think, if I may suggest, Judge Jackson, if the court is going to prescribe licenses, it will have to prescribe them in all respects.

Judge Jackson: Oh, yes, it has, but if the parties get together on what they consider to be a proper royalty, it is no concern of the court.

Mr. Finck: I will not say that we can not, but I do think we have to have some arbiter here.

Judge Jackson: If you arrive at an impasse, I suppose, yes, you will have to have an arbiter.

Mr. Finck: That is right.

Judge Jackson: Go ahead with your argument.

Chief Judge Stephens: It seems to me, Mr. Finck,—if my colleagues disagree, they will say so—since you have had the benefit of this proposed decree by the United States [fol. 543] Gypsum Company and proposed findings and also the defendants for some months, that the defendants ought to have come to an agreement upon such matters. Of course, if they have not and cannot, it may be necessary for the court to postpone this matter until fall.

Judge Jackson: Have you been negotiating?

Mr. Finck: No.

Chief Judge Stephens: We want to avoid that, if possible, so please take additional time, if necessary, and see if, by evening, you cannot come to some agreement on those matters. Proceed.

Mr. Finck: Now, these defendants, National Gypsum Company and Baker, are in hearty accord and concur in and adopt all of the objections stated by Mr. Connelly, very ably, and with respect to the proposed findings of fact and conclusions of law. We also see no reason why there should be further findings of fact or conclusions of law. We think, as you do, Judge Garrett, that the Supreme Court has laid down all the facts and conclusions that are necessary, and a rewrite by the Government counsel will certainly only confuse the matter further.

Now, with respect to the decree proposed by the Government, we also join in and adopt the objections of the United States Gypsum Company to all the sections of their proposed decree, with the exception of 6 and 7, and those provisions have to do with compulsory licensing, and 7 is with respect [fol. 544] to the cancellation of the contract and the enjoining of any further proceedings under these contracts.

Now, Mr. Connelly states that, of course, the licensees

would object to paragraph 6 because it simply compels U.S.G. to do a lot of things.

Well, he is entirely wrong, and the facts are just about as opposite as they could be. These licensees are intensely interested in obtaining and continuing to manufacture under these patents. This court knows very well that all of the licensees have operated under these patents since 1929, they have built their plants so that they may use the licenses, and a great investment has been made throughout this country based on these contracts.

Now, when we entered into the contracts and the other licensees as well, we were offered these contracts by United States Gypsum Company on the assumption—and we certainly took it for granted—that they were legal agreements. Of course, we investigated as far as we could and we felt the same way. We relied on the General Electric case and we find that we were mistaken.

However, these contracts were offered to us, and we built up a gypsum industry, which is based, a board industry, particularly, on these contracts.

Now, of course we want a license, but we do not just want an option for 60 days and have these licenses cancelled [fol. 545] and thrown overboard and then leave us there with plants that we cannot use unless we infringe their patents.

Now, the court has found that they have misused their patents, and it does not seem to me that they would have to go very much further to take the patents back for such misuse and return the patents to the public domain. That has been suggested in many cases.

We do not ask that they do that, but we ask that we be given a fair right to take patents, or take license agreements under these patents under fair terms and conditions.

Now, we have read these license agreements which they have submitted to us, about a week ago, and we have read them over. We have had no time to talk to them about them. I do not agree with the one that was submitted to me or any one of them that was submitted to me, and at the present time we could not take them. I do not know that we could adjust our differences within 60 days.

Under the circumstances I do not think that we should be compelled to adjust our differences within 60 days. I

think this court should follow the principle laid down in these other cases, the Hartford-Empire case, the Lead case, and particularly the case where Mr. Connelly represented the licensees, he took an entirely different position. He got the kind of decree that we want. He got exactly what we want in the Line Material case, and the facts in that case are certainly no more difficult than the facts in this case. [fol. 546] There was no flagrant violation in the Line case, and they worked that out and gave the licensees a good, fair opportunity to agree on their license agreements.

Now, it seems to me that the principles involved—and Judge Jackson mentioned that—there must be some principle of law here. We cannot just take every fact and adopt some new idea. In the Empire case they misused the patents, and the public interest was to be protected, as well as the licensees, and there they followed this principle which has been laid down in these cases subsequently, and I think it is a good principle, not because we are only licensees, but I think that it should be followed. It has been followed in other cases exactly like this one.

Now, in respect to Section VII of the Government decree, I like it better than the suggestions made by United States Gypsum Company, because they match Section VII with a proposed Section IV, which separates the legal from the illegal portions of this contract.

Now, it seems to me that these license agreements and the bulletins were an integral part of a plan to blanket the industry, and they were in violation of the Sherman Act and, therefore, they are either good or they are bad. I do not see how you can just pick out the minimum price provisions and say, "Here, this is legal, and the other parts [fol. 547] are all illegal," if they were used for an illegal purpose.

I mean, it was not only the minimum price provision that was used for an illegal purpose. It was the whole agreement, the whole bulletin, and the court said so.

Now, I do not think you can make a separation of that kind and say, as they do in No. 4, they say the minimum price provisions of the patent licenses are hereby declared illegal.

Now, if that is so, and you want to delete that from the present contracts, then I am satisfied, and you do not need

to bother with any compulsory licensing or anything else. If these contracts are legal, say so.

The Masonite case was mentioned just a few minutes ago by Mr. Connelly and there he said everything about the contracts, but he did not say they were declared illegal. They did not say the price fixing agreement in the Masonite case was legal and that everything else stood and that they could force on us those old provisions of the contract.

Suppose you write out a decree setting forth these provisions. Why, then, of course, you have declared that all of the other provisions except the minimum price provisions in these present agreements are legal, and that they can enforce them or they can force us to take them in the new contracts. There are a lot of provisions in this contract that I do not believe would stand up if they did that, because they compel us to pay royalties on board which is not made [fol. 548] under the patents. But they could do it under a decree such as this.

I think you have got to fish or cut bait. You have got to say these are either legal or they are illegal.

Now, if you want to say that the patent license agreements are declared illegal only as to the minimum price provisions, then you can also say that the rest of the agreement stands just as it is, and we will stand right on that.

Chief Judge Stephens: The thing that troubles me about that, although I am something of an observer here, because I am in a dissenting position—perhaps my questions might be helpful to my colleagues—the thing that troubles me about that position, Mr. Finck, is that I thought my colleagues were entering the summary judgment upon the theory that the Supreme Court had held that on the undisputed facts in the case, to wit, that there were license agreements executed by the defendants, containing price-fixing provisions, industry-wide, adhered to, there was an ipso facto violation of the Sherman Act, regardless of any plan or action in concert or intent to commit a conspiracy or the like.

If that is the theory of the judgment to be entered by the court, how can the court go further and strike down all of the other items which were in issue between the parties? How can it enter a decree which rules and controls those

phases of the case which were in vigorous dispute between the parties under the pleadings?

[fol. 549] Mr. Finck: I do not think these parts were in dispute, were they?

Chief Judge Stephens: I do not want to get into an argument with counsel on the subject. I thought there were a vast number of disputed issues in the case. I outlined them in the opinion of the court. The charges of the complaint were in paragraphs 44, 45, and 46, as I remember it. You are familiar with those. But the defendants denied substantially all of those charges except the execution of the license agreements and their terms and provisions, denied that they were taken out non-bona fide, and denied any plan to monopolize or to violate the Sherman Act. I do not understand that this summary judgment, which has to be entered upon in a situation only where there is no genuine issue as to a material fact can go beyond the limits of the undisputed facts.

Perhaps you and I are talking about two different things.

Mr. Finck: Mr. Connelly makes the same argument for the provision as I am against it. He talks about good faith, but the Supreme Court said that regardless of motive, these violate the Sherman Act. I do not see how we can get beyond that. Good faith has nothing to do with this. I do not think there was ever any dispute as to whether or not there was ever any mention on this as to whether the contracts were severable or not.

Chief Judge Stephens: Did you object to the entry of the [fol. 550] summary judgment?

Mr. Finck: I objected and stood on my answer. That is all.

Chief Judge Stephens: Very well.

Mr. Finck: I made no proffer of proof.

Chief Judge Stephens: Very well.

Mr. Finck: Now, as to the validity of the agreements, the Supreme Court, of course, said nothing about their validity, but it certainly implied an invalidity of the agreement, and I think you also have a precedent which has been offered here by Mr. Connelly, but in the Masonite case, which has been cited so often here, the court declared the contracts illegal, I think; and if you will look at your

memorandum on page 2 of the Masonite case in the third paragraph, it is very clearly stated that:

> "Each of the following agency agreements is adjudged unlawful under the anti-trust laws of the United States and is illegal, null, and void."

And then they list them.

Chief Judge Stephens: Where are the Government's proposed provisions on that?

Mr. Finck: Their proposed provisions are 4 and 5, but they match their 4 with 7 of the Government's proposed decree, which states that each and all of the patent license agreements and contracts, and so forth, relating to all the products, are cancelled as of the effective date of this agree-[fol. 551] ment, and so forth; and when and as we enter into new agreements with the Government or upon 60 days from the date of entry of this decree, whichever is earlier. They want to strike that out and separate the legal parts of this present license agreement from the illegal parts.

Now, I would like to make just a few observations with respect to paragraph 5 of the Government's proposed decree.

Chief Judge Stephens: What paragraph?

Mr. Finck: Paragraphs 4 and 5 of the Government's decree and the suggestions made by the United States Gypsum Company, No. 5 in its suggested decree.

Paragraph, now, 4 of the Government's decree applies to the applicability, and we have no quarrel with that, and the first paragraph of United States Gypsum Company proposed Section V is perfectly all right. I think we go along with United States Gypsum Company on the first paragraph, which reads:

> "Each of the defendant companies and each of their respective officers, directors, agents, employees, representatives, subsidiaries, and any person acting or claiming to act under, through, or for them, or any of them are hereby enjoined and restrained from . . ."

And then they substitute for the injunction of the Government, with which we heartily agree, and we subscribe to everything that Mr. Connelly has said with respect to Sec-

[fol. 552] tion V of the Government decree. We think that the injunctive provisions there are utterly ridiculous and unnecessary. They cover every conceivable item that might have been covered by the bulletins, and we licensees had nothing to do with the bulletins. They were forced on us.

These restraints that the Government seeks to inflict on us have been inflicted on us right along by the United States Gypsum Company, and I see no reason for transferring it from them to the Government.

But it seems to me that everybody will be well protected if paragraph 5, as suggested by United States Gypsum Company eliminates paragraphs 1 and 2, subdivisions marked 1 and 2, and that we can all rely on the protection of the public and protection from further violation of the anti-trust laws if subdivision 3 stands alone, and that has been read several times.

It restrains the defendants from entering into or performing any agreement or understanding among the defendants or any of them in restraint of trade and commerce in gypsum board among the several states in the eastern part of the United States by license agreements with minimum price provisions to fix, maintain, or stabilize prices of gypsum board or the terms and conditions of the sale thereof.

That would be sufficient, but they tried to again impose upon the licensees in this decree that they want to restrain further performance of any of the minimum price provisions [fol. 553] of the patent licenses, including any price bulletins issued thereunder, and they also ask that we be restrained from entering into or performing any agreement or understanding among the defendants or any of them for the purpose or with the effect of continuing, reviving, or re-instating any of the minimum price provisions of the patent licenses.

Now, they leave open everything else. They do not disturb the other parts of the present agreement.

Chief Judge Stephens: For example?

Mr. Finck: For example, the claim for royalties on the manufacture of unpatented products.

Chief Judge Stephens: What others, Mr. Finck? I am asking only to get in mind your point. What other items?

Mr. Finck: Well, I have no other specific ones. There may be many of them, but that is one.

Chief Judge Stephens: How does the Government's proposed decree deal with this?

Mr. Finck: The Government's proposed decree simply says that the license agreements are cancelled and that the defendants are enjoined and restrained from further enforcement of the agreement.

Now, in the Line case the decree contained an injunction for past infringements and all things of that sort, but they cut off those agreements entirely, did not leave them open.

Chief Judge Stephens: Mr. Knuff, where is the cancella-
[fol. 554] tion provision in the Government's decree?

Mr. Knuff: The cancellation provision is contained in Section VII; the compulsory license feature of the Government's decree is contained in Section VI.

Chief Judge Stephens: Proceed, Mr. Finck.

Mr. Finck: If the court please, I have probably overstayed my time.

Chief Judge Stephens: You have not. Your time is just up so far as your own use of it is concerned. The court has taken about ten minutes of your time with questions.

Mr. Finck: I have very little left to say, except to urge the court and trust that they will refuse to find additional facts and conclusions of law, because they are unnecessary, and that this court either cancel the license agreements, the present license agreements, in toto and declare them illegal and void or if the court finds that only the minimum price provisions should be treated with and declared illegal, as requested by U.S.G., then to let the present license agreements stand and delete only those provisions of the contract.

We will have no difficulty. That will do away with a great deal of complication.

And lastly, if you find that these license agreements, the present ones, should be cancelled and terminated, then the licensees should have adequate protection, as provided in the protection given in the Line case and as suggested by the
[fol. 555] Government.

Now, I am not asking for everything as specifically stated by the Government. I just want it substantially, that is all, and I think you will hear from other licensees who feel exactly the same as we do.

Judge Jackson: I am getting the impression—it may be

erroneous—that you are afraid you are going to be frozen out of this business.

Mr. Finck: No.

Judge Jackson: Afraid your business is going to be wrecked? Your investment is going to go for naught, and you are going to have to operate at a loss?

Mr. Finck: It might be impaired, yes, because it would take a long time to transfer over to some other method of operation, yes.

Judge Jackson: But you would still be in the gypsum board business?

Mr. Finck: We would. I do not know about some of the others.

Judge Jackson: Would that have to be under license from U. S. Gypsum?

Mr. Finck: No, I think probably there are ways of making gypsum board without use of these patents, but we do not use them.

Judge Jackson: You do not use them anyhow.

[fol. 556] Mr. Finck: We use these licenses.

Judge Jackson: I thought you just said you did not.

Mr. Finck: I say there may be ways of manufacturing without using the bubble patent, but we do not use the other ways because we find we are all set up to manufacture under the bubble system, and it is a good, economical way of making wallboard. We like it.

Judge Jackson: Straighten me out on this, too. Do you feel, then, if the court in its decree should adjudge that all applicants for licenses should be granted licenses at a reasonable royalty, that you would be included thereunder, but that if the court did not do that, you would not be there included?

Mr. Finck: I do not care whether you grant——

Judge Jackson: I do not see what you are talking about, Mr. Finck, honestly.

Mr. Finck: I think that it is very difficult to negotiate an agreement like this with the patentee, and it will take us more than 60 days. All they suggest that we have—they toss an agreement at us and they say, "You accept this within 60 days or you are out."

Now, I do not think that is a fair way, after we have set this whole thing up, paid them thousands of dollars of roy-

alty over a period of years since 1929. I do not know that we can. I hope we can get together with them within 60 days or less, but we should be protected in case we cannot, and [fol. 557] this has been gone into by the other parties for months.

Judge Jackson: Do you feel as though you would lack protection unless this court adjudges that U.S.G. shall give freely licenses—compulsory licenses? Do you feel you would lack protection without that?

Mr. Finck: License the present licensees. I am not asking that they go all out and license everybody, no, I did not ask for that. I just say substantially, as set forth in No. 6.

Mr. Steffen: Six of the Government's decree?

Mr. Finck: Six of the Government's decree.

Judge Jackson: What?

Mr. Finck: I am talking about paragraph 6 of the Government's decree.

Judge Jackson: I thought you mentioned 7, too.

Mr. Finck: Seven, too.

Chief Judge Stephens: I think my colleagues, at least one of them so stated to me, are still confused about what you want, Mr. Finck.

Judge Jackson: I do not get it.

Chief Judge Stephens: Judge Jackson does not get it, and I confess I do not understand just what you are asking for. You say no language in the mechanics of this thing can be handled so that a decree can be entered within the next two or three weeks, and is there not some way in which the mechanics of this thing can be handled so that a decree can [fol. 558] be entered by my colleagues on the summary judgment here in some form other than that which relates to the licenses to be extended and some provision made for, some agreement come to between Government and defendants that the operations under the present license agreements may go on, except with respect to price fixing, until some reasonable time has expired within which you could come to the terms on the license?

Mr. Finck: Well, if the court can devise some other method——

Judge Jackson: The court is not going to devise anything. We are waiting to get information from you lawyers.

Mr. Finck: That is what we are trying to give you, Judge Jackson, the method that has been devised in similar instances and which—this method has been studied for months and months.

Chief Judge Stephens: Spell it out again to us. We just do not understand it, Mr. Finck. Possibly we are thick on the subject, but we have got to understand it. Try again.

Mr. Finck: We want a provision similar to paragraph 6 as set forth in the Government's proposed decree, which reads as follows:

> "1. That the defendant United States Gypsum Company is hereby ordered and directed to grant to each applicant therefor, but only insofar as it has the right to do so, a non-exclusive license to make, use and vend under any, some, or all patents and patent applications [fol. 559] now or hereafter owned or controlled by it relating to gypsum products"—and I, for one, go along with United States Gypsum Company, and "gypsum products" should read "gypsum board"—"their processes or methods of manufacture, or their uses.
>
> "2. That defendant United States Gypsum Company is hereby enjoined and restrained from making any sale or other disposition of any of said patents or patent applications which deprives it of the power or authority to grant such licenses, unless it sells, transfers or assigns such patents and patent applications and requires, as a condition of such sale, transfer or assignment, that the purchaser, transferee or assignee shall observe the requirements of Sections VI and XI of this decree and the purchaser, transferee or assignee shall file with this court, with notice thereof to the Attorney General, prior to consummation of said transaction, an undertaking to be bound by the provisions of Sections VI and XI of this decree.
>
> "3. That defendant United States Gypsum Company is hereby enjoined and restrained from including any restriction or condition whatsoever in any license or sublicense granted by it pursuant to the provisions of this section except that: (a) the license may be non-transferable; (b) a reasonable non-discriminatory roy- [fol. 560] alty may be charged, provided, however,

that the royalty so charged may not be imposed upon or measured by patent-free products, processes or uses; (c) reasonable provision may be made for the cancellation of the license upon failure of the licensee to pay the royalties as hereinabove provided; (d) the license must provide that the licensee may cancel the license at any time by giving 30 days' notice in writing to the licensor; and (e) the license must provide that the licensee shall immediately have the benefit of any more favorable terms granted other licensees. Without limiting the generality of anything hereinbefore provided, the license may not contain any provision authorizing, allowing, or permitting defendant United States Gypsum Company to inspect the books and records of any licensee."

Now, with respect to that provision and the former provisions, I do not say that we would demand all of that. I think that we would have to negotiate some of this. We have not had a conference with the Government or anybody else since we have been familiar with these suggestions. To go on with the suggested paragraph VI or Section VI of the Government's proposed decree, subdivision 4:

"That upon receipt of written request for a license under the provisions of this section, defendant United States Gypsum Company shall advise the applicant of [fol. 561] the royalty which it deems reasonable for the patents or patent applications to which the request pertains. If the parties are unable to agree upon a reasonable royalty within 60 days from the date such request for the license was received by United States Gypsum Company, the applicant therefor may forthwith apply to this court for the determination of a reasonable royalty, and United States Gypsum Company shall, upon receipt of notice of the filing of such application, promptly give notice thereof to the Attorney General with the right to be heard thereon. In such proceeding, the burden of proof shall be on United States Gypsum Company to establish the reasonableness of the royalty requested by it, and the reasonable royalty rates, if any, determined by the court shall apply to the applicant and all other licensees under the

same or substantially the same patents or patent applications. Pending the completion of negotiations between the parties or any proceeding before this court, the applicant shall have the right to make, use and vend under the patents or patent applications to which his application pertains without payment of royalty or other compensation, but subject to the provisions of subsection 5 of this section.

"5. That where the applicant has the right to make, use and vend under patents or patent applications under [fol. 562] subsection 4 of this section, United States Gypsum Company may apply to the court to fix an interim royalty rate pending final determination of what constitutes a reasonable royalty, if any. If the court fixes such interim royalty rate, United States Gypsum Company shall then issue and the applicant shall accept a license, or, as the case may be, a sublicense, providing for the periodic payment of royalties at such interim rate from the date of the filing of such application by the applicant. If the applicant fails to accept such license or fails to pay the interim royalty in accordance therewith, such action shall be grounds for the dismissal of his application. Where an interim license or sublicense has been issued pursuant to this subsection, reasonable royalty rates, if any, as finally determined by the court shall be retroactive for the applicant and all other licensees paying a higher royalty rate under the same or substantially the same patents or patent applications to the date the applicant files his application with the court.

"6. Nothing herein shall prevent the plaintiff or any applicant from attacking, in the aforesaid proceedings or in any other proceedings, the validity or scope of any patents or patent applications nor shall this decree be construed as importing any validity or value to any of said patents or patent applications."

[fol. 563] Chief Judge Stephens: Now, Mr. Finck, I think I understand you. Let's see if I do.

While you do not insist upon all the provisions of Section VI of the Government's proposed decree, and you would be glad to see removed from it the phrase "gypsum prod-

ucts" and have put in substitute therefor the words "gypsum board"——

Mr. Finck: That is right.

Chief Judge Stephens: —and while you would not insist upon non-exclusive licenses being granted to all persons, but only to the present licensee defendants——

Mr. Finck: That is correct.

Chief Judge Stephens: —nevertheless, you would, if necessary, content yourself with this proposed Government's decree, paragraph VI, including its subdivisions, and if that was entered by the court, then there would be no necessity for immediate approval of license form; is that right?

Mr. Finck: That is right.

Chief Judge Stephens: I see your point.

Mr. Finck: And that same provision has been used in the Line, Hartford, and the Lead case.

Chief Judge Stephens: I think we understand you now, Mr. Finck.

We will now adjourn until two o'clock.

(Whereupon, at 12:40 p.m. a recess was taken until 2:00 p.m. of the same day.)

[fol. 564] Afternoon Session 2:00 p.m.

Chief Judge Stephens: Mr. Miller for Certain-teed.

ARGUMENT OF BEHALF OF DEFENDANT CERTAIN-TEED CORPORATION

By Mr. Miller:

Mr. Miller: May it please the court, our position briefly is this: We agree that by reason of the granting of the motion for summary judgment, all that was decided in this case and all that is before the court for determination in connection with the decree to be entered is the establishment of a violation of Section I of the Anti-Trust Act by reason of the plurality of licenses containing price-fixing provisions, the issuance of the bulletins, and the adherence by

each of the defendants to the license agreements with knowledge of the adherence of others.

For that reason we joined and concurred in the objections filed by U.S.G. to the findings and conclusions of law submitted by the Government and to the objections filed by U.S.G. to all provisions of the Government's proposed decree, with the exception of Articles VI and VII.

I think it has to be admitted that the Supreme Court has found that these license agreements and the price bulletins issued pursuant thereto were violative of the Sherman Anti-Trust Act. Therefore, those license agreements are illegal, and they cannot be clothed with legality by reason of the [fol. 565] fact that the parties did not intend a violation of the Act and relied in good faith on the General Electric case.

The fact that they are illegal I think is established by the language of the Supreme Court, and the recognition of that in a very similar situation which is contained in the Masonite decree, which was submitted to Your Honors for consideration.

Chief Judge Stephens: You think, then, do you, and you yourself are willing to contend that the Supreme Court has held not that there is a prima facie case of illegality, but a complete case?

Mr. Miller: No, I feel, Your Honor, that by virtue of the entry of the summary judgment in this matter, it has been determined for all purposes in this case that as to that one narrow issue, there has been a violation of the Sherman Anti-Trust Act.

Judge Jackson: As held by the Supreme Court on that construction of it.

Mr. Miller: That is right, sir. Now, with the contracts illegal and no longer of any force and effect, we, the licensees, submit ourselves to this court, a court of equity, for protection against the monopoly which then vests in U.S.G. To that end we say that Article VI, particularly Article VI of the Government's proposed decree, gives us the protection that we desire.

Chief Judge Stephens: You do not mean to say you want to be protected against monopoly, do you? You mean to say you want to have the benefit of it.

[fol. 566] Mr. Miller: We want to have the benefit against the monopoly which otherwise would exist if U.S.G. were

not compelled to make license agreements with the various defendants.

Chief Judge Stephens: There is another way of arguing it, isn't there, that since you have been licensees and were relying upon the General Electric case for your action, you think you ought not to be deprived of the benefit of the licenses to the extent that they are legal.

Mr. Miller: That is exactly right. In that connection I would like to point out to Your Honors that since 1929 Certain-teed and the other licensees have not only made the investments in plant and equipment to use these licenses, as Mr. Finck brought out earlier this morning, but we have made very large contributions to U.S.G. by way of royalties, running into millions of dollars, the purpose of which and the recognition of which was to be used in general research for the benefit of all, not only the licensor, but of the licensees as well.

Because of that fact, we feel that Article VI of the Government's proposed decree gives us the benefits of that subsidy which we have created for the benefit not only of ourselves but of U.S.G., that we should be entitled to patents, maybe limited to some reasonable period of time, on inventions that have been discovered during the period up to this date and within the reasonable period from and after this date, which would flow from the research work that was made [fol. 567] during the time that our moneys were contributed to U.S.G.

Chief Judge Stephens: You say you would be entitled to patents or do you mean licenses?

Mr. Miller: Licenses, availing ourselves of the benefits of those patents which are applied for and secured by U.S.G.

Judge Garrett: Do you think the Government agrees with you on that?

Mr. Miller: Yes, sir.

Judge Garrett: By this Article VI?

Mr. Miller: Yes, we do, Judge Garrett. We believe we and the Government, with some modifications in that Article of a minor nature, are in agreement.

Judge Garrett: Such as? You are coming to that, I suppose.

Mr. Miller: We have already taken care of that, and Mr. Dallstream, who will follow me, will present to Your Honors the exact changes we desire to make in both decrees which would give us the decree we would be satisfied with and which we hope that Your Honors will adopt.

Judge Garrett: I suppose counsel for the Government will tell us whether they agree with that.

Mr. Miller: I assume they will.

Judge Jackson: I think they do in that they say in that Article VI that U.S. Gypsum is ordered and directed to grant each applicant—that means any applicant.

Mr. Miller: That means any applicant.

[fol. 568] Judge Jackson: That would take care of you, would it not?

Mr. Miller: Yes, sir. I think our position is now fairly clear in this matter. I just wish to make one or two further references.

As I have said, we in accord with everything else, apart from Article VI and Article VII, with the position ably presented by Mr. Connelly, and I will not belabor the court any further with any expressions on that matter, except with regard to Article XI we feel a little more strongly than Mr. Connelly does.

Article XI of the Government's proposed decree provides for inspection of our books and for inspection of all the other books. We do not believe that in a case of this kind—that is on page 9 of the comparison sheet presented by Mr. Connelly. Under the violation established here we do not believe that a blanket subpoena in advance of any wrongdoing should be granted to the Government, and we feel that Section, that Article and Article V go far beyond any matters the Government is entitled to.

Judge Jackson: You do not agree with Article XI as proposed to be amended by Mr. Connelly?

Mr. Miller: I think the amendment takes some of the vices out of it. I do not think it goes far enough. I think the entire Article should be removed, and I do not think Mr. Connelly would disagree with me on that.

Mr. Connelly: I think I stated the position that the entire [fol. 569] Article should be eliminated.

Mr. Miller: With respect to the Line Material decree, which Mr. Connelly referred to, we are willing to accept, as

Mr. Connelly was, representing licensees in that case, a decree drawn along those lines embodying Article VI of the Government's proposed decree.

With regard to the Masonite decree, I think I would like to defer any further statement about that because Mr. Dallstream, who was very active in that case, representing the licensees there, is going to follow me and will also present in his statement the exact changes we feel ought to be made in these decrees.

Chief Judge Stephens: Mr. Dallstream, for Celotex. Proceed.

Argument on Behalf of Defendant The Celotex Corporation

By Mr. Dallstream

Mr. Dallstream: May it please the court, we are appearing on behalf of The Celotex Corporation, the late-comer in this industry, and to refresh the recollection of the court about the status of The Celotex Corporation in this case, it acquired through liquidation of the assets of American Gypsum Company in 1939, only a few months before this suit was filed, the assets of American Gypsum, and in so acquiring those assets was obliged to assume the liabilities of that company which included the onerous provisions of this license agreement or series of license agreements which were held by American Gypsum Company.

[fol. 570] I hope the court will not misunderstand and think we are crying at this stage of the game about our situation or our plight as we find it, but what I am going to say about some of the injunctive provisions of this decree, I think, requires this preface.

There was included in the license agreements, these standard agreements, a provision that in the event of the sale or transfer of the assets of the American Gypsum Company, it should be incumbent upon it to see that the terms and provisions of this license agreement were taken over, assumed, and observed by the transferee of its assets. That became an obligation of American Gypsum Company back in about 1929, which so far as we have known up until the time of the pronouncement of the opinion of the Supreme Court

in this case, was a valid, subsisting, binding obligation on American Gypsum Company and one which we were obliged to observe or else lose our license and become a patent infringer.

And so for a few months we did observe whatever had been the practice in that industry in that we did not change any prices or any of the terms or conditions of sale.

We have continued to pay royalties until after the Supreme Court decision and for some time thereafter. I think perhaps we were the last one to stop paying royalties pending a final decision in this case.

Now, I feel particularly strong in my feelings about this [fol. 571] whole question of injunctive relief against The Celotex Corporation. We neither participated in, had any knowledge of, or had anything to do with the ten or eleven years of history concerned with these patent license agreements during which all of the events which were spread before this court in the months that this case was tried. We were a total stranger to them because we were not in the business and did not have anything to do with it.

We came into the business because we felt we had to have gypsum products in our line if we were going to serve the same type of customers that had to be served if we were going to be in the other businesses in the building industry in which we were engaged.

We bought a little plant at Port Clinton, Ohio, capable of serving only a very limited territory, which territory has been further limited by all of the horizontal freight increases. Some time later, when Mr. Gloyd, reaching a very advanced age, decided that he must sell his business, we bought his plant down in Texas which, again, serves only a very limited area.

Our two plants are so close together in serving trade as not to even be able in a term of hours, to travel by train from one area to the other.

We have two isolated spot areas in which we serve the gypsum industry, and that is all. We are not competitive anywhere else and I do not know that we ever will be. Cer- [fol. 572] tainly, if the Government is to say that at this late date, after seeing the strongly entrenched units in this industry build themselves up to where they are able to serve the country on a national basis, we are now to be excluded

from ever buying any plant unless we go through the almost impossible provisions of coming before this court and asking you to pass upon it, I do not think we will ever be any bigger in the gypsum business than we are now and we are right down at the tail end with two small, isolated plants serving only spot territories and not in any sense competing in the same territory.

I particularly feel that in the case of Celotex, there may be reasons why those differences should exist as to other people, we have done nothing in this case that could possibly bring upon us any condemnation except we did not undertake to do the thing we could not have done—namely, carry on years of litigation that would have ruined us financially in an effort to try to establish what the Government has taken years to do in this case, with all the power of the Federal Government and all of the money with which to prosecute the case.

Under those circumstances I feel particularly aggrieved that we should be included under this long injunctive relief that is requested by the Government in which we are to be enjoined from everything that conceivably could violate provisions of the anti-trust laws under the latest and most novel theories of the Department of Justice, when we have [fol. 573] not done any of those things at any time.

I have always felt that when it comes down to this sort of decree, the injunctive provisions should be designed to prevent those things which are shown by the record to have been the kind of conduct that you might expect of the defendants in that case unless enjoined, and that a court of equity does not issue injunctions merely for the purpose of showing its power, but it does it for the purpose of preventing abuses which the record shows might occur if that injunctive relief was not granted.

I think this case is singularly free from any indication that anyone wished to flaunt the anti-trust laws or to disregard the modern changes in those laws as interpreted by the Supreme Court.

I venture to say there is not a single defendant in this case that would try to step over the line not only of what is the law today as announced, but as it may be changed and ordered from time to time by further interpretations of the Supreme Court without any injunction.

And so I feel Mr. Connelly's argument that there is no need in this case to enjoin acts save and except the continuation of these agreements under which because of the uniformity and the breadth and the scope of the application of those acts throughout the industry have come under the condemnation of the court.

I recall quite clearly the first of that type of case—namely, [fol. 574] the Masonite case—because I was most active in that case. In that case there were sweeping findings of fact, clearing those defendants from any possible charge of having entered into any type of conspiracy. But Masonite had reserved in the agency agreements the right to control the price of their own products which their own agents, as they saw it, were selling.

They entered into an agreement with Celotex, which was the principal distributor at that time and had just lost a patent case. In those negotiations the record shows that Masonite agreed they would not appoint any other agents. So there could not have been at the time of the inception of that agreement any possible violation of the anti-trust laws. The Supreme Court said the earlier agreement probably did not transcend the anti-trust laws, but when they reached the point that at some time, which Mr. Justice Douglas said he did not have to determine, that they were enough people under the blanket of that type of agency agreements that the industry was more or less controlled thereby, that then and at that time the conspiracy was born. Without ever answering, if you please, just what happened to those who entered into their agreements in good faith at a time when they were legal.

In the Masonite case, in which Mr. Hugh Cox represented the Government, we were faced with the same problem that we are here. The agreements were held null and void, illegal, for the reasons stated. What about these agents that had [fol. 575] built up this business for Masonite and had invested large amounts of money in sales promotion and securing wide distribution of these products?

A court who had found that no one had done anything wrong, but that this new law that was announced had made the contracts illegal, was forced to do equity as between those people who had been working together.

In that case the court contented itself with declaring the contracts illegal for the reasons stated and void.

The same sort of protection of the agents which has been asked for in this case was asked for in that case. Judge Cox finally said, "Why don't you try to work this thing out?" We all agreed we did not think we could do it. Our efforts had been to naught so far.

Finally I was selected tentatively to represent all of the agents. Counsel for Masonite was the second person, and Mr. Hugh Cox, representing the Government, was third, and we labored for about a week and we came forward with something which with very few changes was finally satisfactory.

And so in the Masonite case we did not have any of these provisions because even the Government came in and joined with us in representing to the court that an agreement that was fair, that ran for sufficient years, that properly protected the interests of all parties concerned and the public had been entered into.

Now, in this case we have differences of opinion. These [fol. 576] various agents, some of them have a few plants, some of them have many, some of them are using this patented process and not some of the others. There is not complete uniformity in the extent of use. There are some differences as between the agents themselves and with U.S.G. in the development.

I want to make it quite clear that as far as I am personally concerned, I have not been asleep on this, I have been cooperating with U.S.G. in an effort to see if we could work out satisfactory agreements. The agreements which they have handed up are in the main—a couple of minor points—satisfactory to us, except for the fact that they do not protect us against the problem that U.S.G. might be unwilling to see that we were kept competitive in respect of the adoption of processes and means and products within the board industry itself which have arisen out of their development and work that has been carried on during this period when we have been a licensee.

We paid a very high royalty over the years under these license agreements, all of interests have. That high royalty was justified, in my opinion—and I could be wrong—but I

feel it was justified only because there were two problems here: One, U.S.G. had a great policing job to do under this agreement, prices, terms, and conditions of sale, and so forth; secondly, it was a matter of common acceptance among the agents—and I feel it was justified, both by the statements of the representatives of U.S.G. and by their [fol. 577] conduct under this license agreement—that this was a patent umbrella under which for the payment of these license fees, which ran into the millions, together with other money which U.S.G. contributed, there was a laboratory and research program available to see that this industry was competitive with every type of material that might be in competition with the gypsum industry.

And over all those years U.S.G. has not made a single change that was for the better and would have a better product and would secure more customers and better serve the public, has not adopted a single plan or program, as far as we know, that it has not notified its licensees and made those processes available.

Now, under the terms of those license agreements—and I want to be quite certain about that, so there will be no misunderstanding on the part of any of those connected with U.S.G. as to my position—under those license agreements there was no binding, valid, legal, enforceable obligation for U.S.G. to make anything that it developed available to these licensees over and beyond improvements in the thing that was covered by the several original license agreements.

But by its course of conduct it has gone far beyond it. It is the position of my client and, I think, all of the licensees in the industry that they have been living through all these years when they have been paying these license fees under the assurance that we were going to stay competitive in this [fol. 578] industry. Perforated came out, it was made available; metalized came out, it was made available; several other matters which were not made the subject of formal license agreements, were covered by patents of U.S.G., and have been adopted and used in the industry without objection and without additional royalty fees being paid in some of those instances.

Now, I feel quite strongly that the provision of the Government's decree which provides that these licensees should be protected, not only under the patents which have hereto-

fore been taken out and under which they have been operating and the improvements which are covered by it, but the newer things, if any, that may come out within a reasonable period of time.

If the whole character of this industry is to change, we are going to have a lack of standardization of product, then there ought to be some period of time in which they can stay competitive until each company can build up its own research department and go its own way knowing that there is not going to be standardization.

Today in the building industry there is a very rigid degree of standardization. Government specifications, architects' specifications, all over the country, dealers understand what we are talking about when we talk about various types of synthetic building materials. It has had a great advantage because of the testings that have gone on in the laboratories over the country.

[fol. 579] As to the comparison of one material with another, where they are standard, you can get fair comparisons. I think it has been in the public interest and for the public good, but I feel quite strongly that we cannot, within the limitations of time and convenience of this court, get this whole thing buttoned up; whereas, in the Masonite case there could be handed up something that everyone had agreed upon. There must be a period of time within which to try to settle these things.

If they cannot be settled—and I am frank to say I think perhaps we never will be in complete accord without some help from this court—I think there ought to be that interim period, and I think the solution which the Government has presented, which I have seen again and again in the decrees in the anti-trust cases and I have never heard them criticized before, are perfectly proper provisions.

I think what we are asking for U.S.G. itself, were it in our position, would feel it was thoroughly justified in asking for that protection. If we can have the Government's decree, we can sit around the table and try to agree on those license agreements and bring them in. If we cannot agree, we can bring them in showing the only points of disagreement some time in the fall. In the meantime, we will have gone ahead as we have in the past.

Judge Jackson: You mean, Mr. Dallstream, that it is possible for the defendants and the Government to get together [fol. 580] on a decree as you did in the Masonite case?

Mr. Dallstream: I am not talking about a decree, I am talking about terms of the license.

Judge Jackson: I see. Go ahead.

Mr. Dallstream: I think, though, we are going to have to find some way when we all get around together—we will never do it by United States Gypsum first talking to one licensee and then to another and then one licensee meeting another one on the street and talking about it. You have finally got to sit around the table and get some finality and conclusion about it.

Chief Judge Stephens: You are satisfied, Mr. Dallstream, that Section Number VI of the Government's proposed decree——

Mr. Dallstream: I have taken the liberty today to take this sheet which Mr. Connelly so kindly gave us and putting in box form the views which I had and which I understand are concurred in by all of the agents or all of the licensees.

If the court would like, I would be very glad to see that those are prepared in sufficient numbers for everyone and hand it up, but I could briefly summarize them if I am not encroaching on the time of the court.

Judge Jackson: Well, I think it might have a good effect to have a visual presentation before us as well as by hearing.

Mr. Dallstream: I think Mr. Wanlass could prepare them by tomorrow.

Chief Judge Stephens: You had better hand each of us a [fol. 581] copy by tomorrow, but explain them now.

Mr. Dallstream: I will do it very quickly and the reporter, of course, will take it down.

We feel on Section I of the decree, the jurisdictional section, the statement of the Government should be adopted.

On Article II, which is the definitions, we feel that the United States Gypsum definitions are adequate and are fair.

On III we feel that the statement that is contained in the U. S. Gypsum suggestion is fair and should be adopted.

At IV, which United States Gypsum has left out altogether and has gone back over to page 7 and shown it lined up with VII of the Government, we would like to suggest that in lieu of either, the Article VII of the Government

and Article IV of U.S. Gypsum, that a new Article IV reading in exactly the language of the Masonite case be entered, which would read as follows:

> "That each of the license agreements listed in Article II hereof is adjudged unlawful under the antitrust laws of the United States and is illegal, null, and void."

Chief Judge Stephens: You suggest that in place of Article VII of the Government?

Mr. Dallstream: Of the Government and Article IV of United States Gypsum.

Chief Judge Stephens: Yes.

Mr. Dallstream: I agree with Mr. Finck that we cannot [fol. 582] dodge the fact that whatever interpretation should be put on the Supreme Court's decision, the majority of this court have decided that the mere plurality of licenses, accompanied by the other features that existed in this case, made those agreements illegal and that, being illegal, they are unenforceable and are null and void.

Now, we are faced with the dilemma: What are we going to do about it? We have got to have some new ones if we are going to be fair to the industry, to these licensees, the public, and to all concerned; and so, some provision must be made, and we think V and VI take care of that, and if we declare them null and void for these reasons, which have been recited in the previous paragraph of this decree, that we have taken care of the situation.

In order that United States Gypsum will have no misunderstanding of my position, I want them to know that my suggestion is in no sense based on any hope or desire on my part to get out of any license fees during any interim period, and if we can agree upon an appropriate license agreement, as far as my client is concerned, we are willing to let the royalty rate, whatever it is, agreed upon apply back to the time when we ceased paying royalties. I just want to make it clear to all that we are not attempting by this declaration of illegality of them to find some way of avoiding the license fees which during this none of us have paid.

[fol. 583] Mr. Spray: You said V and VI. You mean VI and VII?

Mr. Dallstream: VI and VII, yes, I am sorry.

Now, we think that V of United States Gypsum suggestions should take the place of the Government's V.

We approve of the Government's suggestion for VI and VII, except that we think the words "gypsum products" should be changed to "gypsum board," because we think it would be unfair to have those provisions apply to the products that were not involved in this litigation.

We have seen no reason whatever why Section VIII should be retained, as I think everyone has criticized it. I particularly feel that that section should have no application to our own company, Celotex.

We think IX, likewise, deals with matters which were in no way involved in the case.

[fol. 584] Chief Judge Stephens: Going back to 6, you suggested that "gypsum products" should be changed to "gypsum board."

Mr. Dallstream: Yes, sir.

Chief Judge Stephens: Do you also or do you not suggest that "each applicant" is a proper term? Do you think the decree should require every applicant to be granted a non-exclusive license or only the present licensees?

Mr. Dallstream: I do not think it is too important one way or the other. I do not think there has been any clamoring for anybody to get into the gypsum business. I think most of the deposits that are in competitive territory have been pretty well taken care of.

I do not think as a practical matter that anybody is going out and try to take the tag ends of marginal gypsum lands and try to get into the gypsum business. I do not care particularly. It is not a problem that affects me. I cannot see any basis in this decree for punishing United States Gypsum for something they did in good faith. I think you have to do justice to these licensees, but I do not see you need to go out and punish them by inviting the world to come in and use their patents on the basis of alleged misuse to the same degree that you might if there had been much more severe acts subject to criticism than appear in this case.

Chief Judge Stephens: I see your position.

Mr. Dallstream: The other matter than I want to prod up [fol. 585] before I conclude is with reference to Article X.

Article X in paragraph 1 provides that all of these defendants are restrained and enjoined from acquiring, purchasing, acquiring and holding, or acquiring and controlling, directly or indirectly, the business or assets or capital stock or bonds of any other defendant herein.

I do not think there is anything in this case that has ever touched upon the question of acquisitions of property, holdings, that indicated that anyone has done anything wrong about trying to enlarge their place in the gypsum field. I particularly feel that it would be improper to have that provision in the decree as applying to the Celotex Corporation.

We have never bought a competing plant, we have never done anything that would indicate we want to violate the anti-trust laws or create a monopoly. With the present status of the gypsum business, we could not create a monopoly if we wanted to. We are not competitive in many of the territories. If we ever do find that we are able to find another gypsum mine some place where we can have a little better part and afford more competition to the strongly entrenched units in the industry, it certainly would not be anti-social or violative of the purposes of the anti-trust laws.

I assume that Mr. Connelly has so fully presented the other criticisms of that particular provision that the court may well feel it should not be included, but I do feel that in [fol. 586] view of the fact that we have never had our day in court—and we are willing to have it any time, if there is anything the Government wishes to charge us with that is pertinent to this matter—that there should be inserted in the fourth line after the word "from," the words "hereafter——

Chief Judge Stephens: Fourth line after the word "from"?

Mr. Dallstream: Yes. —"enjoined and restrained from hereafter acquiring" and so forth. In other words, this decree should speak in futuro and leave whatever is in the past still a matter that is undisposed of by this decree, and we certainly could not agree to a decree which perhaps might possibly be construed or claimed to be susceptible of construction that this court had in some manner gone into the question of our purchase of the Gloyd property and had

passed on that issue, because you have not even heard about it yet, as far as the record is concerned.

I think that fully expresses my views, except the fact that I wanted to again call the court's attention to the fact that the language of four, which I suggest was taken directly from the Masonite case, which reads as follows: "That each of the following agency agreements," and so forth, "is adjudged unlawful under the anti-trust laws of the United States, is illegal, null, and void."

I think that disposes of all the problems and the confusion which Mr. Finck and others have been laboring under. [fol. 587] I do not think any of us want to do anything that is improper as far as our past royalties are concerned, once that matter has been determined and license agreements have been taken care of, and we ought to have this thing either fish or fowl.

The court ought to either determine they are going to uphold these agreements and only strike at the clauses that are in them and knock them out or else we ought to say it goes to the whole agreement because it is inseparable. I know that the Government in every case I have been connected with felt there was only one way to cure these things, and that was to strike down the whole agreement and have the court start fresh with something that was all right from the start under which they could live.

Judge Garrett: I understood you to agree to the suggestion that future contracts should be enjoined.

Mr. Dallstream: I did not understand, sir, that I made any reference whatever to that. What particular section were you referring to, sir?

Judge Garrett: In the last few moments. Probably I misunderstood you. That is why I am asking the question.

Mr. Dallstream: I think, sir, I was referring at the time to the provisions of section 1 of Article VII, which prohibited any of the companies from acquiring any property or stock of any other company.

Judge Jackson: Is that Article VII?

[fol. 588] Mr. Dallstream: Article X.

Judge Garrett: What was the suggestion, then, with respect to the future in that? You say in the future——

Mr. Dallstream: I said if you were going to leave approval of that clause, which the Government suggests, section 1 of

Article X, then in any event, it should be made clear that this decree is speaking prospectively in view of the word "holding", which is contained in it, and that the word "hereafter" should be included.

Judge Jackson: Did you suggest that "hereafter" come between the word "from" and the "acquiring"?

Mr. Dallstream: Yes, sir.

Judge Jackson: That is what I thought.

Mr. Dallstream: I want the court to fully understand I think the entire provision should come out——

Judge Jackson: Oh, yes.

Mr. Dallstream: But if the court should not agree with me, I think we should at least have that clarification, because I want neither advantage nor favor from the Government on that, except I want my say in court if we are ever going to talk about it.

Chief Judge Stephens: Mr. Rippey, for Ebsary.

[fol. 589] ARGUMENT OF BEHALF OF DEFENDANTS EBSARY GYPSUM COMPANY AND FREDERICK G. EBSARY

By Mr. Rippey:

Mr. Rippey: May it please the court, most of the points have been pretty well discussed pro and con so far. I will not labor the court with going over many of them, but there are some points which I should like to bring out in behalf of the Ebsary Gypsum Company.

In the first place, we feel that new findings of fact are absolutely unnecessary in the case. Findings have been made, and the record as it now stands with the decision of the Supreme Court and with the decision on the motion for summary judgment is sufficient to support any decree which may be made now.

With respect to the license agreements, we feel that they should be cancelled in their entirety, not parts of them. The bargain that was made by the licensees—at least, by the Ebsary Company—was with respect to all of the provisions of the whole. If the court were to strike out some, it would amount to making over the agreement, which the defendants

made, and the contract as a whole was the bargain, not in parts.

The Government has included in many instances references to the individual defendants in respect to the injunctive provisions. We feel those should be eliminated completely. The individuals being the presidents of the com- [fol. 590] panies, were acting in behalf of the companies as agents, and the parties to all of the dealings were the corporations, not the individuals. The Government might just as well have named the vice presidents or secretaries or managing agents as well as the presidents.

Now, the provision with reference to the basing point should be also eliminated completely. That was no part of the case and, as a matter of fact, it is surrounded with some confusion at the present time, with Congress attempting to straighten it out in some measure.

As to proposed paragraph 8 of the Government's decree, we believe that that should be stricken out completely. It is a matter of bargaining with a customer in each case, at least in the case of the Ebsary Company, the bargain that is made or the order that is obtained is accepted by the company and they make their own agreement with the proposed purchaser.

It has happened that in instances they have been overstocked with some type of material and they have, perhaps, made a requirement that they would sell a product on condition that some of the other was taken off their hands. I think that is perfectly fair. Any bargain they would like to make of that nature should be permitted.

As to paragraph 10 of the proposed decree of the Government, that, we believe, should be eliminated completely. It is noticed that in paragraph 2 and 3 under X there is a reference to application or notice to the Attorney General. [fol. 591] However, under paragraph 1 no such reference is made. It is possible in the future, in view of the fact that this decree will be quite permanent, that any of the individual defendants may either want to sell part of their stock or the companies may want to sell to some one else. If they are unable to sell to other defendants, that restricts, of course, the possibilities.

It is also conceivable that if permission were to be required to make any such transfer of securities or sale, it

might be denied entirely. Then, if the defendant did not want to continue in business, the only alternative would be to liquidate rather than to sell. We believe that the proposed Article X should be completely eliminated.

Now, as to the question of costs, it was I who suggested the ratable division of costs between the defendants in the first instance in my memorandum which I filed. The Government claims that no costs could be awarded against it. I think that proposition is academic because we feel that no costs should be awarded against anyone in this case in view of the good faith of the defendants. That means as the expenses and costs now stand, each side would bear his own.

As between the defendants, the Ebsary Company being one of the smaller in size, it will be bearing a larger proportion—well, the same proportion of costs, but larger in comparison with the business done.

I have suggested in my memorandum that some ratable [fol. 592] division be made on the basis of business done in the year 1939.

Chief Judge Stephens: I remember your memorandum now. I got the impression that that was suggested and I am glad you are addressing yourself to that. How can we find out about the business done?

Mr. Rippey: That is already before the court in the year 1939, for example, and for convenience I think that is listed in the——

Chief Judge Stephens: Why do you take that year?

Mr. Rippey: That happens to be listed in the Government's proposed findings of fact. It does not mean that year, no preference for that year against any other year, except that happened to be brought out in the testimony pretty much. For convenience it is set out here. I do not approve of the findings of fact proposed by the Government, but for convenience it is set out here, for that year.

Chief Judge Stephens: In your memorandum?

Mr. Rippey: No, the year 1939 is referred to in my memorandum, but in the proposed findings of the Government the proportion of business done in 1939 is set out.

Chief Judge Stephens: Where is that?

Mr. Rippey: That is under section designated 1 on page 2.

Chief Judge Stephens: Proposed findings?

Mr. Rippey: Yes, sir.

[fol. 593] Chief Judge Stephens: You mean subdivision 4?

Mr. Rippey: It is on page 2, headed "Paragraph 1. The defendants" and then there are several paragraphs under that.

Chief Judge Stephens: What part of that contains the estimate of the amount of business done by each in the year 1939?

Mr. Rippey: Paragraph 2, for example, refers to the United States Gypsum Company, and paragraph 4 states that that company produced and sold approximately 55 percent of all gypsum board and a substantial amount of all plaster sold in the eastern area.

Chief Judge Stephens: I see what you mean.

Mr. Rippey: Paragraph 5 refers to the defendant National and states 23 percent of board, 20 percent of all plaster, and so on for the rest of the defendants.

Chief Judge Stephens: I see. You suggest that each party be allowed to bear its own costs—that is, the defendants and Government speaking collectively—but that among the defendants the court should direct that the defendants should apportion the costs among themselves on the basis of the amount of business done in that given year?

Mr. Rippey: I do suggest that. Now, there is also a suggestion shown in the footnote to the slip opinion of the United States Supreme Court on page 5, called Footnote 1, and it names the several companies and it gives the sales of board in the eastern area in 1939.

[fol. 594] Chief Judge Stephens: What page?

Mr. Rippey: Page 5.

Chief Judge Stephens: I think our opinion in the case also has some reference to that, does it not, in the statement of undisputed facts?

Mr. Rippey: I think it does.

Chief Judge Stephens: Proceed, Mr. Rippey.

Mr. Rippey: With reference to the future and the use of patents, the Ebsary Company will need to have available some one or more of the patents it has been using, because it is presently operating under one or more of the patents and its facilities are arranged for that.

So a reasonable period will be necessary to work out a license agreement, we feel, which would be satisfactory; and

paragraphs 6 and 7 of the Government's proposal appear to be satisfactory to us, except for the elimination of the reference to gypsum products, and it should be confined to gypsum board.

I feel that a reasonable arrangement can be worked out under those provisions.

Chief Judge Stephens: Mr. Rippey, may I ask you about an administrative matter? The rules of the District Court require any party to a suit in its jurisdiction within ten days after filing a complaint or answer to designate some local counsel with whom the court may deal where the general counsel for the company is not located in the district. [fol. 595] I believe you have no local counsel designated here.

Mr. Rippey: No, that is correct.

Chief Judge Stephens: Would you object to designating someone? It is a great convenience. The purpose of that rule is to give the court someone that it can conveniently deal with quickly in respect to matters which need to be brought to the attention of counsel, especially administrative matters. In this case, for example, where there are so many companies involved and who all have general counsel living elsewhere, the convenience of the court would be greatly disturbed if we could not have someone here with whom we can deal in matters of continuances and setting of dates, and things of that sort.

Mr. Rippey: I, of course, am perfectly willing to go along, but under the circumstances I would like to consult with the Ebsary plant.

Chief Judge Stephens: I am not suggesting you make an immediate designation. I assure you I am not trying to draw up trade for the local bar. I have in mind the convenience of the court and the convenience of the parties to the case.

Next is Mr. Johnston.

ARGUMENT ON BEHALF OF DEFENDANT SAMUEL M. GLOYD

By Mr. Johnston:

Mr. Johnston: Gentlemen of the court, I hardly believe that I ought to be here, and I hope I will not be much longer.

Chief Judge Stephens: You made a tremendous effort to [fol. 596] get here, Mr. Johnston, and you certainly deserve to be here.

Mr. Johnston: Mr. Gloyd, as the court knows, is on record as retired from this business soon after we concluded the argument on the motion to dismiss. His health and age were such that it became necessary to dispose of that business.

Now, I am here primarily to see if the Government is now ready to dismiss as to Mr. Gloyd. A judgment here would be of no force against him. He is not in business, he never will be in business again, and that has been brought up many times during the trial of this case. In fact, in the early stages of the trial we were promised a dismissal, not by this counsel but by other counsel representing the Government. All of that is in the record.

I am just pausing now to see what the attitude of the Government would be about dismissing as to Mr. Gloyd. I really want it on the record some way because I do not know what to do until I know the Government's attitude.

Mr. Steffen: I want to say that it has not been a matter of record, as I gathered from the talk this afternoon, that the Texas Company has sold out to Celotex Company; but, assuming that that is true, Mr. Knuff and I would still be without power to grant a dismissal at this point.

We would be glad to take it up with our superiors and find out what the attitude would be.

Mr. Johnston: Now, that being the position of the Gov- [fol. 597] ernment, I then ask that no decree be entered here affecting in any manner that sale.

Chief Judge Stephens: Affecting in any manner what?

Mr. Johnston: Affecting in any manner the sale of the Gloyd properties to Celotex. The way that is drawn it could be so interpreted.

Chief Judge Stephens: Will the insertion of the word "hereafter," as requested by Mr. Dallstream, I believe, protect you?

Mr. Johnston: Well, it may. I was thinking of something else when he was saying that. It may also correct the next thing that I am asking.

Mr. Gloyd's funds are being invested from time to time in stocks. I think at the moment his estate owns some

stock in U. S. Gypsum. I know he has at different times. I would not like to see a decree entered that would in any manner affect the right to buy and sell stocks as an investment in U. S. Gypsum or any of these other concerns.

Now, we joined in the memorandum and exhibits filed by U. S. Gypsum, so I need say nothing about that, because we just did that to be of record, and having no interest in the business any more, I did not enter into a study of these various things that were discussed. We would just like to be dismissed and sent home out of this case.

Chief Judge Stephens: Mr. Johnston, is there some way in [fol. 598] which you can put of record that there has been a disposition of all the property, disposition of the business which has been known in this case as that of the Texas Plaster Company? Could you stipulate to satisfy the Government counsel that there has been such a sale so it can be placed of record here so that the court will have some record basis for protecting you?

Mr. Johnston: It has been in the record four or five times. I believe Mr. Dallstream and I could stipulate. Do you know when it was sold, 1943 or 1944?

Mr. Dallstream: My recollection is it was in 1945, sir. I do not think that is too important. At any rate, it was some time ago, and there is no question but what Mr. Gloyd has been out of business, he is a very elderly man and will never enter business again. I certainly feel that there would be no possible reason for keeping him in this case for any purpose whatever of the Government.

Mr. Johnston: May the record show that in 1944 or 1945 all of the Gloyd properties known as the Texas Cement Plaster Company were sold to the Celotex Corporation. He retired from business at that time and, in fact, has retired from all business. He is a very elderly and feeble man and will not be in any kind of business again.

Judge Garrett: Up to that time to which you refer he was operating as an individual?

Mr. Johnston: Yes.

[fol. 599] Judge Garrett: Not as a corporation?

Mr. Johnston: No.

Judge Garrett: The Texas Company itself was not a corporation or was it?

Mr. Johnston: Up to about 1926 or 1927 the Texas Cement Plaster Company was a corporation. Mr. Gloyd owned and controlled all of the stock. He dissolved it, and from that time on he operated as an individual under the trade name Texas Cement Plaster Company.

Chief Judge Stephens: That was made clear throughout the trial of this case.

Mr. Johnston: That is in the record.

Judge Garrett: That was my recollection of it, and I wanted it refreshed. Very well.

Chief Judge Stephens: Is the Government willing to accept that statement as correct?

Mr. Knuff: We do not know anything about it, Your Honor.

Chief Judge Stephens: Very well.

Judge Garrett: Have you read the record?

Mr. Knuff: Have I read the record?

Judge Garrett: On that phase of it, the sale.

Mr. Knuff: All we understand is that there has been a sale.

Judge Jackson: Anything in the record stating that?

Mr. Knuff: No.

Chief Judge Stephens: Nothing in the record on it.

[fol. 600] Judge Jackson: Except what Mr. Johnston just said now.

Mr. Knuff: That is right.

Mr. Johnston: If my memory serves me right, the last session I attended counsel here for the Government made the statement—and it is in the record—to the effect that he wanted it understood that they were not accepting the sale from Gloyd to Celotex, and we would probably hear from that later. So this is not the first time counsel has heard about it.

Any further questions, Your Honor?

Chief Judge Stephens: Thank you, Mr. Johnston.

Mr. DeWitt for Newark

ARGUMENT ON BEHALF OF DEFENDANT NEWARK PLASTER COMPANY

By Mr. DeWitt:

Mr. DeWitt: If the court please, I am here on behalf of the defendant Newark Plaster Company to urge that two

provisions be incorporated in any decree that be made by this court and that there be any modification necessary with respect to any other provisions insofar as such modifications may be necessary to avoid any inconsistency between those other provisions and the two provisions to which I shall especially address myself.

The first provision which Newark Plaster Company believes should be incorporated in any decree is a provision which will state in no uncertain language that the license agreements, as they now exist, are invalid, null, and void. [fol. 601] The second provision which we think should be incorporated is a provision substantially in the form of Section VI of the proposed Government decree, under which Newark Plaster Company as a licensee would have the right to obtain from U. S. Gypsum Company a license under the several patents that now exist and under such improvement patents as may issue in the future.

Now, addressing myself first to the first of these two provisions—namely, that the decree should incorporate a provision which states clearly that these license agreements are invalid—I think, in the first place, that the language of the opinion of the Supreme Court clearly indicates that the Supreme Court was not of the opinion that the only illegal portions of these license agreements were the price fixing provisions.

It seems to me clear from the language of the opinion of the Supreme Court that the Supreme Court was of the opinion that the license agreements were invalid as a whole.

Now, if Your Honors will turn to page 23 of the slip opinion, about the middle of the page, Your Honors will find the following language:

> "The licensor was to fix minimum prices binding both on itself and its licensees; royalty was to be measured by percentage of the value of all gypsum products, patented or unpatented"—that certainly has nothing to do with price fixing—"the license could not be transferred without the licensor's consent"—that has nothing to [fol. 602] do with price fixing—"the licensee opened its books of accounts to the licensor" that has nothing to do with price fixing—"the licensee was protected

against competition with more favorable licenses and there was a cancellation clause for failure to live up to the arrangements."

Now, if the court will turn to page 27, the court will find at the middle of the page this language:

"The license agreements and the bulletins establish the conspiracy of the licensor and each licensee to violate the Sherman Act."

And on page 31 at the top of the page:

"The provision in the license contracts that royalties should be paid on the production of unpatented board is strongly indicative of an agreement not to manufacture unpatented board," which has nothing to do with price fixing.

On page 34, the court said:

"The defendants did undertake to control prices and distribution in gypsum board."

So that it seems to me a reading of the opinion of the Supreme Court must indicate that the Supreme Court did not contemplate that this court would try to winnow out the wheat from the chaff and decide which of the provisions of existing license agreements are valid and which are [fol. 603] invalid. It seems to me that the Supreme Court clearly was of the opinion that the agreements as a whole are invalid.

Now, that is not merely an argument made for the sake of making the argument as an academic enterprise. I think it has practical implications because, when we come to negotiate new license agreements, if this court should attempt to separate price fixing provisions as illegal from other provisions which are legal, we will be met in the negotiation of new contracts with the contention that provisions in the existing contracts which are not clearly price fixing provisions have the blessing of this court and may be included in a new contract.

We do not want to become involved in discussions of that kind and, therefore, think that we ought to finish with the existing contracts and negotiate new contracts anew.

Now, for example, if this court takes the position that only price fixing provisions are condemned, then what are we to say as to the provision in the existing contracts to the effect that royalties are to be payable whether the patents are used or not?

What shall we answer when we are asked to include that provision in a new contract and are met with the contention that this court has put its blessing on that—at any rate, has not clearly held that portion of the existing license agreement invalid.

What are we to say when we are confronted with the [fol. 604] proposition that this court has inferentially put the blessing on a provision to the effect that there may be an inspection of our books, a provision which is included in the present contract?

Moreover, these price provisions in the existing contract are so inextricably intertwined with other provisions that if we were to attempt to negotiate new contracts to separate one from the other, we would become involved in endless argument.

Finally, a final reason why this provision should be included in any decree that is entered is furnished by the example of the Masonite case where, as Your Honors have already been informed, the decree expressly provided that the agreements were null and void.

Judge Jackson: And that meets your standard of being unequivocal and clear, does it?

Mr. DeWitt: It does. So, for those three reasons we think that this court should, without equivocation, find in its decree that these license agreements are invalid: namely, the Supreme Court so indicates, practical considerations argue for it, and we have the example of the decree in the Masonite case, which everybody agrees is very closely similar to the present situation.

Now, if this court does not agree with my argument thus far, then I think this court should eliminate any ambiguity in the situation by expressly finding that the only provisions [fol. 605] of these contracts that are invalid are the price fixing provisions.

I do not see, with all respect to the court, how the court could include such a provision in the decree, but it seems to me that we ought not to fall down between two stools. We

ought to have some pronouncement by the court in the decree with reference to these existing license agreements. If this court thinks that these license agreements are valid, excising the price fixing provisions, the decree should so state. If not, if the court agrees that under the language of the Supreme Court, these license agreements are invalid, the decree should so state.

Chief Judge Stephens: Let me ask you this about your first point. As I understood it on the motion for summary judgment, my colleagues decided to grant the motion for summary judgment on the ground that the Supreme Court had decided that in their plurality of licenses with price fixing provisions, industry-wide, adhered to by the parties, was illegal.

I had assumed, then, that this court would enter a decree which would limit it to such a decision as that. If it goes farther and strikes down all the terms of the licenses other than the price fixing provisions, will it not have entered a decree which in that aspect will have denied the defendants the right to their day in court as to the legality of those other provisions?

Mr. DeWitt: I do not think so. To answer Your Honor's [fol. 606] question, I do not think so. It seems to me that if the existing license agreements are to be condemned because they have price fixing provisions in them, it inevitably results in that the other provisions which, if found in another context might valid, are tainted with the illegality of the price fixing provisions.

I do not think you can draw the line. I think it is like a fluid which permeates the entire agreement. This court by finding, following the Supreme Court decision, that these price fixing provisions were illegal, of necessity found that the agreements were illegal.

Chief Judge Stephens: What becomes, then, of the Supreme Court's statement that a prima facie case of illegality had been established with respect to these matters? Why did the Supreme Court then send the case back for further proceeding? Why did not it enter a summary judgment or order one entered closing the whole case?

Mr. DeWitt: I wish I had the wisdom and the knowledge to interpret to Your Honor the reasoning processes of the

United States Supreme Court. In all humility, I have not, and I, therefore, must respectfully beg to be excused from answering your question directly.

Judge Jackson: Well, it will probably have an opportunity to clarify what it said. Whichever way this goes, they will get another whack at it.

[fol. 607] Mr. DeWitt: I do think we become involved, if I may say so, in very technical—I was going to say quibbling, when we try to torment the language of the Supreme Court and the distinction between the prima facie case and summary judgment and all that. It seems to me, reading the opinion of the Supreme Court just as it stands, that it is perfectly clear that the Supreme Court took the position that these agreements were invalid and I suppose, as a matter of technical procedure, having before it a judgment on a motion to dismiss, they had to send it back with directions that the defense be given a chance to put in a case. I should think that would be automatic.

They had a motion to dismiss. This court granted the motion to dismiss. Now, they sent it back and as a matter of form they had to say that the defense should put in any case that it had.

I do not think they needed to go beyond that. If the court had been asked the question which Your Honor addressed to me, I think, perhaps, that would have been the answer the court would have made.

Chief Judge Stephens: Very well. Proceed.

Mr. DeWitt: Have I answered Your Honor's question?

Chief Judge Stephens: You have done the best you can within the limits of your "humility."

Mr. DeWitt: Now, equally important to us are the provisions with respect to the granting of licenses under the [fol. 608] existing patents and under future patents.

As Daniel Webster said of Dartmouth College, "We are a small company, but there are those that love it"; and if the purpose of all this litigation, through which we have been laundering for many years, is to promote competition, certainly this court ought to have some concern for the protection of the smaller companies from elimination which would result in a concentration of business under the larger companies and defeat the very purpose of the litigation.

We, therefore, think that something substantially like the provisions of the Government's proposed decree, Section VI, should be incorporated in any decree.

Now, in that connection we would make clearer than it is now made that under the decree we are to have the opportunity to have a separate license under each patent or each group of patents relating to the same procedure.

I make that point because under the proposed forms of license agreement, which were submitted to us within the last ten days by United States Gypsum Company, there are combined in one proposed agreement a license under the bubble patent and a license under the perforated lath patent; so that if we did not use the perforated lath but use the other, we would have to pay a royalty and, conversely, if we used the other and did not use the perforated lath, we would have to. We ought not to have to pay a royalty based upon a use of two when we merely want to use [fol. 609] one.

I think it is clear in the Government's provision and, if not, it should be from our point of view, that we are to have the opportunity to take licenses not only under the existing patents, but under any improvement patents. If that is not done, just as a matter of plain common sense, and there is an improvement patent which revolutionizes the industry, the competitive position of the company that I represent will be such that it will practically be forced out of business and you will have accomplished a result directly the opposite from what the Government has been trying to accomplish.

Now, I think, too, that it is necessary that there be included in this provision a provision under which the Government is to act as the arbiter. Personally, we get along all right with those who represent United States Gypsum Company, but I do think there will be questions which perhaps cannot be solved without recourse to some third party. It seems to me that much as this court may wish to avoid the responsibility, that there is no other agency to which we can turn.

Judge Garrett: Oh, yes. The Supreme Court of the United States would make a very fair agency in that regard.

Mr. DeWitt: We would be very glad to adopt them if Your Honors will so direct in the decree.

Chief Judge Stephens: I think you will want to correct your record in one place. You misspoke and said you thought [fol. 610] the Government ought to be made the arbiter. You meant the court.

Mr. DeWitt: I meant the court.

Judge Jackson: You did not mean this particular court composed of these three particular men, did you?

Mr. DeWitt: I would be very glad to suggest that it be this particular court.

Judge Jackson: We may be scattered abroad, you know, by the time you are in difficulty.

Mr. DeWitt: I think Your Honors will have no difficulty in selecting the appropriate agency if you agree on the principle.

There are a number of provisions that I might mention, speculating upon the possibility of disagreement, but I think Your Honors can easily imagine that there will be difficulties other than questions of royalty which the parties may not be able to iron out.

[fol. 611] There ought to be some place to which the parties can turn to settle differences and come to a conclusion if the industry is going to go on.

Now, as to the other provisions I am not going to take up the time of the court because I am not prepared to discuss them in detail.

I repeat in conclusion what I said in the beginning, that for us it is vital that the decree include a provision taking an attitude squarely with regard to the validity or partial validity of these existing license agreements, either holding they are invalid, null and void, as in the Masonite case, or squarely stating that they are valid except for the price-fixing provisions; and that there be included the provision with respect to the future licenses, a separate license for each separate patent, as to existing and future patents; and that any other provisions in the decree inconsistent with those be modified so as to become consistent.

Mr. Johnston: If the court please, may I be indulged just one statement?

In view of the statement of counsel for the Government about this sale to Celotex, I would direct the court's atten-

tion to page 94 of the Government's memorandum. I read as follows from the seventh line:

> "In 1945, while this court had under consideration the defendants' motions to dismiss, Celotex, without [fol. 612] notice to the Government and without, as far as the Government knows, notice to this court, acquired the assets of Texas Cement Plaster Company."

Mr. Connelly: May it please the court, while the arguments that have just been made have emanated from counsel for the parties called defendants, I think it is reasonably clear that those arguments were directed specifically to a position adverse to that of the defendant United States Gypsum Company.

If Your Honors would grant me a few minutes to reply thereto—I realize you are anxious to close this proceeding promptly, but I should like those few moments, if I may.

Chief Judge Stephens: I think for the benefit of the court you ought to be allowed some time to reply, so we can get a clarification of the situation that apparently exists between the other defendants and U.S.G. But we will take our afternoon recess at the present time.

How long do you think you gentlemen for the Government will need to reply?

Mr. Knuff: Well, in view of my horrible estimate of yesterday, I would say someplace in the nature of three-quarters to an hour.

Judge Jackson: Don't you think you have said about everything you can possibly say with respect to the Government's contention?

Mr. Knuff: I have got to clarify something, Your Honor. [fol. 613] The waters have been muddied in this case, and I have got to clarify them.

Judge Jackson: Well, if you do not repeat what you said in your long argument yesterday, it will be all right. There is no sense in making zweiback out of this, you know.

Mr. Knuff: That is right.

(A short recess was taken.)

Chief Judge Stephens: Proceed, Mr. Connelly.

Further Argument on Behalf of Defendants United States Gypsum Company, Sewell L. Avery and Oliver M. Knode

By Mr. Connelly:

Mr. Connelly: I take it from what has been said, if the court please, that the defendants, other than the defendant United States Gypsum Company, differ with the defendant for whom I appear in only one respect, and that is the provisions proposed to be made for the protection of present licensees of the United States Gypsum Company.

Now, much has been said in the course of these arguments which I have found somewhat difficult to follow. For example, the statement has been made on several occasions suggesting that the United States Gypsum Company has proposed that this court strike down only certain provisions of the existing license agreements, leaving the balance in effect.

That is certainly not what we have proposed. Our proposal in that respect appears at page 7 of the schedule, [fol. 614] Article IV of our form of decree, containing two short and simple paragraphs:

"1. The minimum price provisions of the patent licenses are hereby declared to be illegal.

"2. Each of the patent licenses is hereby canceled and terminated." In its entirety.

Judge Jackson: Could you read in there for that reason? Would you say, then, that that subsection 2 would mean each of the patent licenses hereby canceled and terminated because they contain minimum price provisions?

Mr. Connelly: That could be read in, sure.

Judge Jackson: It could be interpreted that way.

Mr. Connelly: It could be so interpreted.

Judge Jackson: I imagine that is what Mr. DeWitt and Mr. Dallstream probably have in mind.

Mr. Connelly: Well, if that is what they have in mind, of course, so far as what the Supreme Court has said on this subject, it has dealt precisely and specifically with price control under the present licenses and nothing the Supreme Court has said has had any bearing upon the issuance of patent licenses without price control.

But, however that may be, the provision that we propose would strike down the entire patent licenses, but there is certainly no holding and there could be no holding that other provisions of the license—that is to say, the provisions [fol. 615] granting them the right to manufacture, provisions with reference to payment of royalties, and so forth—those had simply not been before the court for decision, and no action had been taken on them.

Judge Jackson: And your stand would be this: That if and when the patent licenses are canceled and terminated, you would start from scratch on new patent licenses?

Mr. Connelly: Yes, sir. In other words, as I thought our proposal was clearly enough stated, it does not entail at least some of the possible objections or difficulties that some of the defendants' counsel apparently anticipate.

Now, I stated at the outset that we recognized the problem involved in that. In other words, that the licensees currently engaged in business, having engaged in the manufacture of patented board in reliance upon the licenses, should be protected. They ought to have on fair terms all of the rights under the U.S.G. patents which they have heretofore had; and it is the purpose and intention of United States Gypsum Company in making the proposals that it has to afford them all of those rights.

But I think in view of some of the things that have been said, I should make even more specific, if I can, just what it is that we have proposed as a way of handling this situation in the light of the court's decision.

That is Article VI of the U.S.G. form of decree, page 4 of the schedule. We cite:

[fol. 616] "In recognition of the fact that defendant companies other than defendant United States Gypsum Company, in their manufacture and sale of gypsum board, have relied upon their respective patent licenses to use the patents therein described, said defendant United States Company shall grant to each of the other defendant companies which shall apply therefor within 60 days from the date of this decree"—and I pause for a moment. 60 days does not have any special magic attached to it. It was in our view a reasonable period of time during which the defendant companies could determine whether they wished to have a license under these patents; if that period of time

is thought to be unreasonable in terms of shortness, of course, it can be extended in such form as the court may think proper. Continuing:

"—in lieu of any such patent license held by it, an indivisible and non-exclusive license, retroactive to the date of this decree"—pausing there a moment. In other words, affording them full protection whenever the patent license agreement shall ultimately be executed, it is retroactive to the date of this decree, so that at all times they are protected by licenses from any threat of infringement.

Chief Judge Stephens: So that the canceling of the present licenses and the going into effect of the new ones is coincidental?

Mr. Connelly: Yes, sir, even though the precise agreements themselves may not be formally signed until some period later on.

[fol. 617] In other words, the decree itself can deal with this situation. It can be entered now, but can leave, if anything required further consideration, matters incident to the form of the license agreements.

Then, to continue:

"—to make, use and vend gypsum board under any of the unexpired patents described in such patent license, upon royalties and other terms and conditions not less favorable to such other defendant company than those contained in such patent license, but without minimum price provisions." Stopping right there. The obvious purport of that provision is to insure that the defendant licensees shall have all of the rights which they now possess or which they possess under the present license agreements without limitation in any form whatever, and that, of course, without any minimum price provisions, which under the decision have been held to be illegal.

Now, the next sentence in that Article VI was suggested by us as merely a simple means of dealing with the machinery for providing approval of a form of license agreement. We recognize that there is a possibility that a form of license agreement which we might submit under that provision of the decree might not be acceptable in one form or another to any given licensee. Indeed, the Government

itself might have some objection to some particular provision or condition of the license agreement and, therefore, [fol. 618] we thought a simple way to handle it, to avoid any future controversy, is to provide in the decree itself that there shall be filed with the court a form of the proposed license agreement, that if there should be any objections to any portions of that, those could be ironed out, but that ultimately there will be on file a form of license agreement which is approved, and from there on in no mechanical problem being presented to this court by having applications being made from time to time concerning the meaning, interpretation, and effect of that provision.

Now, pursuant to the thought contained in that second sentence, that last sentence of Article VI, we have submitted the forms of license agreements which were handed up to the court yesterday. Those forms I should like to comment on just very briefly. There are three separate forms of agreement: One covering the general board patents, and those are four in number, three of them relating to board itself and one relating to perforated lath.

Let me say, before I move on to the next one, that this form of agreement has been presented to the licensees with the statement, the explicit statement, that of the list of four patents each licensee is at liberty to strike out any one, two, or three of them. In other words, the defendant United States Gypsum Company is offering to license under any one of the unexpired patents or any two or more that the individual licensee shall desire. If there should be any [fol. 619] difficulty, as was indicated in the comments made by the last speaker, desire to have a separate form of license agreement covering specifically the perforated lath patent, it is perfectly satisfactory. There is no objection on the part of U.S.G. to that point.

These four patents are the remaining patents covered in the so-called general license agreements which were in effect at the time this complaint was filed and that is the reason for their inclusion in the same license agreement just as they were before, but there is no reason why they should not be separated.

The other two forms, one for a metalized board, covering that patent, and the other for the so-called bundling patent, a method of packing. Under those agreements and under

that proposal, as I say, each licensee is at liberty to take a license under one or more, just as it shall elect.

The agreements provide for a royalty rate, a royalty rate which is precisely the same royalty rate in effect under the prior license agreements, with one exception, and that is that royalties are payable only on the patented product. In other words, royalties payable only to the extent that the licensee actually produces products embodying inventions covered by the licensed patents.

All of the price provisions, provisions relating to price control in prior agreements, have been eliminated. Indeed, every other provision, condition, or clause to which the [fol. 620] Government has expressed any objection has been eliminated from these forms of license agreements, with two exceptions, and they are very minor ones. In the Government's proposed decree, Article VI, paragraph 3, page 5 of the schedule, one of the conditions prescribed or purported to be prescribed by the Government is that the license must provide that the licensee may cancel the license at any time by giving 30 days' notice in writing to the licensor. That provision is not included in this form of license agreement, because there is no occasion for it in the view of the defendant United States Gypsum Company in a license which does not contain any price limitations, and to enter into any license agreement authorizing one party to cancel with 30 days' notice and not authorizing the other to cancel is a meaningless gesture.

The other provision referred to by the Government at the end of paragraph 3 is that a license agreement shall not contain any clause authorizing the inspection of licensees' books by the licensor. This form of license agreement does contain a provision authorizing inspection of the licensees' books in order to verify the accuracy of the payment of the royalties.

It also, however, contains a provision at the same spot that if any licensee shall object to inspection of its books by U.S.G., that inspection may be carried on by an outside independent auditor.

Chief Judge Stephens: Where is that provision with re- [fol. 621] spect to book inspection? I cannot seem to put my eye on it.

Mr. Connelly: With the Government's comments on it, that is the last sentence of paragraph 3 on page 5 of the schedule.

Chief Judge Stephens: I see.

Mr. Connelly: "Without limiting the generality of the foregoing"—in other words, it is our view that that is entirely proper and appropriate as a provision to include in a patent license, so that the patentee-licensor may be assured of receiving the royalties to which it is entitled under the license agreement.

Now, reference has been made to the fact that these forms of license agreement were submitted to the other defendants a week or ten days ago. That is quite true. But this represents a revision of a prior draft of proposed license agreement being prepared under the provisions of Article VI of our proposed decree, at the time our memorandum was filed back in March, and objections or comments or questions were invited from all of the licensees asking if there were provisions there to which anyone objected, and this document, copies of which have been handed to the court, represents a revision intended to meet any and all objections that any licensee might properly make to the proposed form of license.

I think it is significant that with the exception of the one statement by one licensee that he desired to have a separation of perforated lath from the other board patents, no one [fol. 622] of the counsel who has spoken with reference to this situation has raised any objection to any of the terms of these forms of proposed license agreement.

Now, under those circumstances the question naturally arises as to why all of the opposition to the solution to the problem suggested by the United States Gypsum Company? Well, the answer to that I think is perfectly clear, and the reason why those defendants express a desire for the proposal made by the Government as to compulsory licensing, is that in that proposal—that is Article VI, again, of the Government's proposed decree—defendant United States Gypsum Company is ordered, directed to grant a non-exclusive license to make, use, and vend under any, some, or all patents and patent applications now or hereafter owned or controlled by it.

That, really, it seems to me, gets the nub of the contro-

versy between the patentee, United States Gypsum Company, and the licensees.

In other words, those licensees are here in the position of attempting to obtain from this court something more than they have heretofore had by virtue of their license agreements.

In connection with the prior license agreements, United States Gypsum Company had a provision in there granting to the licensee rights under any improvements with reference to the patents licensed in specific terms and the proposed forms of license agreements contain exactly the same [fol. 623] provision with respect to improvements. This clause, however, is dealing with an entirely different subject. That is, any invention which may hereafter be made in the field by United States Gypsum Company or patent, which may be taken out or acquired by it, that under the Government's form of proposed decree, the United States Gypsum Company would be forced to grant a license to anyone that might apply for it, and that is modified by the defendants to say it must grant a license to the other persons who are now licensees.

I submit there is absolutely nothing in this case, either from the standpoint of the Government's objection and the decision in the case itself or from the standpoint of fair protection to licensees which justifies this court directing a confiscation of property of the United States Gypsum Company and a direction that it shall be compelled, whether or not it wishes to—that is beside the point, as to whether or not it would ultimately grant such license—asking the court now to direct that any time in the future, whenever it acquires a patent, that it shall issue a license to these defendants upon request and that is a provision to which United States Gypsum Company most strenuously and for reasons which I am sure the court will understand objects.

The time problem is a very unimportant one, it seems to me. The position of the United States Gypsum Company has been stated very clearly on that point. It will not con- [fol. 624] sent at this point to the granting of a license on any patents it may acquire in the future irrespective of what they are.

So far as anything else in the proposed form of license agreement, there is no reason indicated why those questions

or if there be any objections, why they could not be disposed of very promptly indeed.

Now, Mr. Finck made a statement, which I am sure was inadvertent, to the effect that my position in this case with reference to this question of compulsory licensing differed from my position in Line Material Company case. That happens not to be the fact.

It is quite true that in that case, as I pointed out to Your Honors, I did not represent the patentee. I represented one of the licensees.

It is also true, as I stated to Your Honors before, that in that case the patentee did not object to a compulsory licensing provision, and, of course, it was not for the licensee to take any position one way or the other, except that I did state to the court, both in my memorandum and in my oral argument in Milwaukee, that so far as the licensee that I represented was concerned, we saw no occasion under the facts of that case why any decree should contain a provision for compulsory licensing, but that since the question was one primarily affecting the patentee, I did not think it was up to me to make any comments one way or the other about it. [fol. 625] Since the patentee had consented, that was the end of it.

There was one other statement made to the effect, as I recall it, that the payment of royalties by the licensees in prior years was within some kind of understanding or arrangement designed to promote a general program of research to be carried on apparently by the United States Gypsum Company for the benefit of the industry as a whole.

I should like to make it clear that there is nothing in the record that I know of to support that suggestion, and it is not the fact, that there was any understanding of any nature that the royalties were for a general research program for the benefit of all parties.

They were payable for the privilege of using the patents included in the license agreements.

In our view the proposal that we have suggested in this form of decree covers every conceivable, legitimate interest of the licensee that is entitled to protection. It is, in our view, a completely fair and workable way of disposing of the problem, once the decision has been accepted, and that there is nothing in this case—I will not repeat my arguments in

that connection—to justify the granting of what I describe as the punitive relief sought by the Government against this defendant.

Chief Judge Stephens: Mr. Knuff.

[fol. 626] CLOSING ARGUMENT ON BEHALF OF THE PLAINTIFF

By Mr. Knuff:

Mr. Knuff: May it please the court, I want to at this time take up and clarify a point which, if it was clear before, certainly has been muddied by what has been said yesterday and today and, secondly, I want to discuss some of the provisions of the decree which the Government feels are absolutely necessary to restore competition in this industry.

If I understand the defendants' initial argument in this case—and I think I do—their argument is one to narrow the scope of this case in three respects:

First, they want to narrow the scope of this case as decided by the Supreme Court;

Second, they seek to narrow the scope of this case as decided by this court on the motion for summary judgment; and, hence,

Three, they thereby hope to limit the findings and the decree.

Counsel for U.S.G. said yesterday that the whole case is predicated upon the proposition that the conspiracy may be shown by establishing that the defendants entered into a plurality of licenses. Therefore, he argued that only a conspiracy to restrain trade is involved, not one covering Section II, the monopoly charge.

Furthermore, so he would argue, only patented board, not [fol. 627] gypsum products, is covered by the issue in this case. The issues in this case, if the court pleases, as presented throughout this trial, as presented on the motion for summary judgment—rather, motion to dismiss—as presented to the Supreme Court, and as presented on the motion for summary judgment, are defined by the pleadings

and by the evidence. The issue that is before this court and which was before the Supreme Court is that any combination of erstwhile competitors to enter into common price-fixing license agreements is illegal under the Sherman Act.

The Supreme Court by its reversal of Finding 118 affirmed that proposition. The Supreme Court said that there was a plan to blanket the industry under price-fixing license agreements and stabilize prices.

Counsel for U.S.G. stated yesterday at Transcript 8084, and I quote:

> "Secondly, the Supreme Court made certain statements as to the law applicable to the situation of a plurality of license agreements with price-fixing provisions, which this court held to be applicable to the admitted, undisputed facts in this case; and, on the basis of that, made its decision granting the motion for summary judgment."

He then stated on the same page that the law applicable to the situation of a plurality of licenses was based upon the holdings of the Supreme Court as set forth at pages 389 and 393 of the Supreme Court's opinion.

[fol. 628] At Transcript 8085 there is a quotation from page 389 of the Supreme Court opinion, reading:

> "We think that the industry-wide license agreements, entered into with knowledge on the part of licensor and licensees of the adherence of others, with the control over prices and methods of distribution through the agreements and the bulletins, were sufficient to establish a prima facie case of conspiracy."

He also quoted from page 393 of the opinion—and that appears at Transcript 8086——

Chief Judge Stephens: What transcript are you referring to?

Mr. Knuff: 8086 of the transcript.

Judge Jackson: Yesterday's proceeding.

Mr. Knuff: That is right, Your Honor.

Chief Judge Stephens: My page is 7966 to 8128.

Mr. Knuff: 8086 is correct in mine.

Chief Judge Stephens: I thought you said only 85.

Mr. Knuff: 8086. If I said anything else, I misspoke myself.

Chief Judge Stephens: Proceed.

Mr. Knuff: Quoting from the Supreme Court at 393:

> "The license agreements and the bulletins establish the conspiracy of the licensor and each licensee to violate the Sherman Act."

Now, note the context in which those statements appear. [fol. 629] Those statements appear under Point III of the Supreme Court's opinion. Point III of the Supreme Court's opinion does not propose to define the issue in this case.

Point III of the Supreme Court's opinion was discussing a preliminary question, and that question is: When is there a prima facie case showing an association of conspirators in a common plan or a common enterprise or having a common objective, so that the declarations and acts of each individual can be binding on the others?

The Supreme Court in that portion of its opinion was dealing with a preliminary question as to whether or not the declaration rule was to be applied. It did not purport to set the limits of its decision under that section.

The Supreme Court in order to determine whether or not the rule in Hitchman Coal & Coke v. Mitchell was to be applied, had to first determine whether we had shown an association of individuals with a common purpose to promote a common cause, legal or illegal, so that then the Supreme Court could read or not read the declarations as binding upon all.

I repeat the Supreme Court was not laying down the law of this case in Point III, and when they take those two passages, which they quoted yesterday, and say that that is the law of this case, that a plurality of licenses constitutes a conspiracy, they are taking that out of context. The context in which that was used was to determine whether or [fol. 630] not we had made out a prima facie conspiracy, for the purpose of applying the declaration rule.

The Supreme Court there pointed out at page 389 that each licensee was aware of U.S.G.'s intention to make the licenses industry-wide, that the licenses provided for price control, that the licensee was protected against competition with more favorable licenses.

The Court then said at page 389:

> "The District Court did not accept the foregoing facts as evidence of a conspiracy."

The Supreme Court did not say:

> "The District Court did not accept these facts as evidence of the conspiracy."

The Court then said:

> "These facts are proof of a conspiracy."

They said that in order to apply the declaration rule.

Chief Judge Stephens: Were they not talking about the conspiracy charge? The last sentence at the top of page 24 follows what you read, which again repeats the words "a conspiracy", and says:

> "Certainly they are overwhelming evidence of a plan of the licensors and licensees to fix prices and regulate operations in the gypsum board industry."

Mr. Knuff: No, Your Honor, I do not think that the Supreme Court was talking about anything in this section other than the application of the declaration rule. It starts out on page 388:

> [fol. 631] "The trial court ruled that on motion to dismiss pursuant to Rule 41 (b), the court should weigh the evidence and grant the motion if the Government failed to establish its case by a preponderance of the evidence, and the court further ruled," and so forth.

Then they say in the next paragraph:

> "We are unable to accept, however, the ruling of the court that declarations of each defendant were admissible only against the defendant making the declaration."

And then they point out the reasons why they cannot accept it. Then on 393 they say:

> "We think that all of the declarations and acts which we have set forth in this opinion are in aid of the ulti-

mate conspiracy. We do not attempt to fix a date when the conspiracy was first formed. At least, the declarations which we have quoted were made with the purpose of advancing a plan which ultimately eventuated in the licenses of 1929."

They start off Point III talking about the declaration rule, they end Point III talking about the declaration rule.

But in Point IV of the Supreme Court's opinion the Supreme Court did proceed to consider the whole case and considered whether in the light of all of the evidence, including the declarations, we had shown that the defendants associated themselves in a plan to blanket the industry and stabilize prices.

After reviewing, beginning on page 393, mentioning Inter-[fol. 632] state Circuit, mentioning specifically Finding 118, then continuing over on page 395, the Court said:

"The Government relied very largely on documentary exhibits, and called as witnesses many of the authors of the documents. Both on direct and cross-examination counsel were permitted to phrase their questions in extremely leading form, so that the import of the witnesses' testimony was conflicting. On cross-examination most of the witnesses denied that they had acted in concert in securing patent licenses or that they had agreed to do the things which were in fact done. Where such testimony is in conflict with contemporaneous documents we can give it little weight, particularly when the crucial issues involved mixed questions of law and fact. Despite the opportunity of the trial court to appraise the credibility of the witnesses, we cannot under the circumstances of this case rule otherwise than that Finding 118 is clearly erroneous."

Now, if Finding Number 118 is erroneous, the correct finding is that the defendants did associate themselves in a plan to blanket the industry under patent license agreements and stabilize prices.

It follows that the motion which we presented last June was based upon this broad proposition that the defendants, being erstwhile competitors, entered into common price-

fixing license agreements for the purpose of organizing the [fol. 633] industry and stabilizing prices.

The plurality of licenses was not the conspiracy. The license agreements were only evidence of the conspiracy. The conspiracy in this case was the plan to blanket the industry under patent licenses and stabilize prices. That conspiracy, that plan was set forth in paragraph 45 (a) to (e) of our complaint.

Paragraph 45 charged the defendants with fixing prices on board, standardizing product, eliminating jobbers, attempting to fix the resale prices of manufacturing distributors, and attempting to fix the prices on unpatented gypsum products.

That is the conspiracy, not the plurality of licenses. And it is important that the court understands this. The plurality of licenses is not the conspiracy in this case.

Now, the defendants have never met that. The conspiracy is, as I said, paragraph 45 (a) to (e) and the other paragraphs of the complaint which define it.

In the light of what I have just said, I want to take up some of the provisions of the decree. I want to first take up Section III.

Section III provides:

> "The said defendants, and each of them, have contracted, combined, and conspired to restrain trade and commerce in gypsum products and have monopolized, attempted to monopolize, combined and conspired to [fol. 634] monopolize trade and commerce in gypsum board among the several States, in violation of Sections 1 and 2 of the Sherman Anti-Trust Act."

Now, before I go on with my discussion there, I think that in view of the fact that we have no assurance that findings of fact and conclusions of law are going to be made in this case, we think that there should be some amendment which the court might consider. We have had that amendment typed, and that amendment should appear immediately following the period at the end of that sentence, which period should be changed to a comma; and we would then add what I have passed up to the court, that:

"Each of the license agreements relating to board, metalized board, and perforated lath entered into between United States Gypsum Company and the other defendants herein is adjudged unlawful under the anti-trust laws of the United States and is illegal, null and void."

Chief Judge Stephens: You suggest that goes after what?

Mr. Knuff: After the last word on the page there, "the Anti-Trust Act."

Chief Judge Stephens: Of what article?

Mr. Knuff: Article III, Your Honor. That is on page 3. Now, of course, that will necessitate a revamping of Section VII.

Section VII, if Your Honors please, appears on page 9 of the Government's proposed decree. Six lines down from the [fol. 635] beginning after the word "cancellation", insert a period and delete everything that follows after that. I think in view of what has been said today and in view of the fact that there is no assurance that findings of fact are going to be made, that consideration will have to be given by the court to these changes that I have suggested.

Now, I want to take up Section III in the light of what the defendants say.

Judge Jackson: How about paragraph 2 there under your Article VII, Mr. Knuff? You say, "That from and after the effective date", and you have stricken the effective date of cancelation in the previous paragraph, under paragraph 1. Would that necessitate a change in that paragraph?

Mr. Knuff: It may be that it might. On the other hand, when you are declaring them null and void, which I suggest under III, null and void could probably be considered as a synonym for cancelation, but certainly——

Judge Jackson: That would then be the date of the decree, would it, the date of filing?

Mr. Knuff: That is right.

Judge Jackson: All right.

Mr. Knuff: I have not matured all considerations concerning the impact that these proposed suggestions will have upon other portions of the decree. This occurred to me now, and I thought I ought to call the court's attention to it.

[fol. 636] Now, the defendants say that this section of the decree——

Judge Jackson Which one is that?

Mr. Knuff: Section III. The defendants say that Section III of the decree should not contain any provisions relating to monopoly. Their reasons are that the language, which I have pointed out on page 389 and 393, relating to this preliminary question, compels this result.

Well, of course, the answer to it is as I have indicated. The language at 389 and 393 was used for the purpose of determining a preliminary question. It did not purport to rule on the scope of this case. Therefore, there should be included in this section of the decree provisions relating to Section II of the Sherman Act. That is, the monopoly section.

Now, in addition, a further answer can be made that the Supreme Court has specifically said, when they were passing on this case under Section IV, that the defendants have monopolized board. They said that, not under Section IV, they said it under Section V; and at page 400 here is what the Court said:

> "Patents grant no privilege to their owners of organizing the use of those patents to monopolize an industry through price control, through royalties for the patents drawn from patent-free industry products and through regulation of distribution. Here patents have been put to such uses as to collide with the Sherman Act's protection of the public from evil consequences. [fol. 637] The defendants did undertake to control prices and distribution in gypsum board. They did utilize an agency, Board Survey, Inc., to make this control effective. Such facts, together with the other indicia of intent to monopolize the gypsum board industry, hereinbefore detailed as to the agreements, bulletins and declarations, convince us that the defendants violated the Sherman Act."

Now, our Section III, dealing with the monopoly charge, is in line with the language that the Supreme Court used. We say there:

> "The said defendants . . . have monopolized, attempted to monopolize, combined and conspired to monopolize trade and commerce in gypsum board . . ."

That is what the Supreme Court said at page 400.

On June 29 of last year we argued this same proposition before this court, and I want to call the court's attention to page 38 of our brief on that argument.

Chief Judge Stephens: What date was that?

Mr. Knuff: Page 38.

Chief Judge Stephens: What date?

Mr. Knuff: June 29, 1948, Your Honor, page 38, where we set out the cases and where also we set out in full just what the defendants have done.

Chief Judge Stephens: Just a minute. That is June 29?

Mr. Knuff: Yes.

[fol. 638] Chief Judge Stephens: And the pages there run from 7800 to 7942.

Mr. Knuff: If Your Honor pleases, I am referring to our memorandum that we filed on that date, page 38.

Chief Judge Stephens: I thought you were talking about the argument.

Mr. Knuff: I realized there was some slight confusion.

Now, the Supreme Court has said in the American Tobacco case that the material consideration in determining whether or not a monopoly exists is not that prices are raised or that competitors are excluded from the market, but that power exists to raise prices and exclude competitors and that an intent to do so is present.

Now, look. These license agreements provided for price control. It is an admitted fact in this case that U.S.G. did fix the prices, not on fifty percent of the board, not on sixty percent of the board, but on one hundred percent of the board manufactured in the Eastern area.

So that the first portion of the American Tobacco decision we more than meet. It is not a question that prices have been raised, but that power exists. We not only show power, but we show the exercise of that power. Prices have been fixed. They were fixed in this industry from November, 1929, down to at least June or July 8, 1941.

The second phase of that test: Did they have power to [fol. 639] exclude others from the industry? Of course they did. Under Article IX of the license agreements of November, 1929, before any manufacturer could sell board at any price to a manufacturing distributor, he had to have U.S.G.'s permission. It was not a question whether or not he was

going to sell board at a discount that he had to have U.S.G.'s permission. Before he could sell board at any price, under Paragraph IX of that November, 1929, license agreement, he had to get U.S.G.'s consent.

They had power there to exclude. Did they use the power? Of course, they used the power.

They excluded from this industry all jobbers of board. Those jobbers of board have been excluded from this industry since August 8, 1930, down to the present time, and U.S.G. does not offer to prove differently in their proffer.

So that when you consider the test that we have to meet, as laid down in the American Tobacco case, we not only meet the test, we more than meet it. We show not only power, but we show the exercise of the power. I am not pressing at this time, although I am not waiving it, the exclusion of Cardiff Gypsum Company.

The defendants argue, with reference to this same Section III, that the decree should be limited to patented board. Well, there are some considerations that I think ought to be called to the court's attention in connection with that.

First, so limited, this puts the defendants in the position [fol. 640] to argue that in 1954, when the patent license agreements expire, that then this section of the decree would have no application to what they are manufacturing; and

Second, whether or not the board that is manufactured is patented is certainly a debatable question.

The relief, to be adequate, should cover every type of board.

[fol. 641] Justice Jackson in the International Salt case said:

> "When the purpose to restrain trade appears from a clear violation of the law, it is not necessary that all the untraveled roads to that end be left open and only the worn ones be closed."

Now, has there been a clear violation of the law? I submit that these defendants have violated the Sherman Act in almost every conceivable way possible, and they have done it for more than twenty years.

When the purpose to restrain trade appears from a clear

violation of the law, then putting the matter affirmatively, it is the duty of the court to block all roads. This decree should not be limited to patented board, it should comprise all types of board.

Judge Jackson: Gypsum board.

Mr. Knuff: Gypsum board, not patented board. I am passing by, I make no point as to whether or not the defendants manufactured patented board because I argued before that there was no evidence in this case showing any patented board had been made.

Now, third, there is nothing in the Supreme Court's opinion which would restrict this case to patented board. At pages 389 and 393, what the court there said again was in connection with the declaration rule; and in Point IV of the opinion the Supreme Court said that the evidence disclosed that the defendants did associate themselves in a plan to blanket the industry under licenses and stabilize [fol. 642] prices. The court did not say that the evidence disclosed a plan to stabilize prices on patented board.

Now, I want to come to Section VI of the decree. That is the section that deals with compulsory licenses.

We pointed out there are three precedents for that: Hartford-Empire, National Lead, Line Material. Counsel for U.S.G. argues that the Hartford-Empire case does not apply because in that case, so it is asserted, there was a patent pooling arrangement.

Well, the answer to that appears in the record in this case. We also have a patent pooling arrangement here. Your Honors will recall that back in 1926 when Mr. Blagden and Mr. Avery were negotiating for the license agreements, Blagden offered to transfer to U.S.G. the thirty or more patents that Beaver had in any way relating to board. The reason why he transferred them is beside the point. They were transferred.

In paragraph 84 of this complaint we say that in 1929 U.S.G. acquired the starch patents for the purpose of fixing prices. They may have also acquired the starch patents in order to relieve themselves of any claim for infringement that Universal had against U.S.G.; but, certainly, when this court reads Exhibit 231 and reads all the other exhibits relating to the various meetings that were held during the summer of 1929, I am quite convinced that an inference that

U.S.G. acquired those starch patents in order to fix the [fol. 643] prices on board is justified.

The Supreme Court, as I have said, has sustained provisions of decrees providing for compulsory licenses; and this case cannot be distinguished from them. When you have involved the principle that where in an anti-trust case the defendants have misused patents, then a District Court has power to compel compulsory, reasonable royalty licenses.

Now, that is the principle. There has been a misuse of patents in this case. The Supreme Court has said that on two occasions, at least.

They said it at page 391:

> "Conspiracies to control prices and distribution, such as we have here, we believe to be beyond any patent privilege."

At page 400 the Supreme Court said:

> "Patents grant no privilege to their owners of organizing the use of those patents to monopolize an industry through price control, through royalties for the patents drawn from patent-free industry products and through regulation of distribution."

And this is important:

> "Here patents have been put to such uses as to collide with the Sherman Act's protection of the public from evil consequences."

[fol. 644] Now, I want to make sure that the court understands our position thoroughly as to these compulsory reasonable royalty licenses.

Judge Jackson: Do you think that is punitive action?

Mr. Knuff: Oh, definitely not.

Judge Jackson: It is?

Mr. Knuff: Definitely, it is not punitive, no.

Judge Jackson: Why? You are robbing a man of property rights. He has a right to make and to vend and to prevent others from making. Now, he has a patent. The assumption is that that patent is valid. Does he not have a right to exclude anybody he wants, as a broad proposition?

Mr. Knuff: As a broad proposition, that is correct.

Judge Jackson: All right. Now, suppose that under a mistaken interpretation of law, which I think is pretty apparent in this case, that all of the parties in the gypsum industry were parties defendant here, their counsel, their officers, felt that under the General Electric decision they were entitled to do as they did. I have not seen anything that would indicate bad faith.

Mr. Knuff: But good faith, Your Honor——

Judge Jackson: Or an evil intent here. Now, if people did do as they thought they had a right to do and there was nothing sub rosa about it, why do you think they should be visited with a penalty?

[fol. 645] Mr. Knuff: Well, I will answer your question.

Judge Jackson: Although the things that they did, as a matter of law, under the decisions is held to be a conspiracy. That is something that bothers me very much.

Mr. Knuff: I am glad Your Honor brought it up because I want to point out to you that good faith is not in issue in this case.

Judge Jackson: That may not be. It is not, anyhow.

Mr. Knuff: Then, certainly, the Supreme Court said that good intentions or good motives——

Judge Jackson: Do you punish a man for pursuing good intentions? You say it is punitive.

Mr. Knuff: No, I do not say it is punitive.

Judge Jackson: Oh, well, explain why it is not.

Mr. Knuff: It is not punitive for the reason that the Supreme Court has approved of it, unless the court is going to say the Supreme Court is approving something punitive. They have approved of that.

Now, under our system of law I do not think that we can attribute to the Supreme Court the idea that the Supreme Court is going to punish somebody in an equity case.

Judge Jackson: Oh, no! That would be a very peculiar kind of assumption to make. Go ahead. I just had another thought in my head that escaped me but it may come later on.

Oh, yes, here is what I was about to ask you: Have you [fol. 646] any cases in which the decree, any anti-trust cases, in which the decree did not provide for compulsory licensing?

Mr. Knuff: Are there any cases?

Judge Jackson: Yes.

Mr. Knuff: I suppose there are. I cannot——

Judge Jackson: There must be a distinction, then, between the facts of the case where they do have the compulsory licenses and the other cases in the decrees where they have not.

Mr. Knuff: I say I presume there are. I do not know.

But I do say that where you have a misuse of patents in an anti-trust case, that the principle is that the court has the power to compel compulsory licenses.

Judge Jackson: Undoubtedly, but I am looking at the equity of the thing. Should we do it in this case?

Mr. Knuff: I think you should do it in this case, because unless you compel U.S.G. to grant licenses, you are leaving untouched the very source of power which Chief Justice White in the Standard Oil case said should be neutralized.

The power to compel compulsory licenses is essentially the same power that equity courts have to compel divestiture of assets.

Judge Jackson: Well, yes, we have the power, undoubtedly. I am just talking about the propriety of invoking that power so that we may do it, that is all, in this case and in these circumstances.

[fol. 647] Mr. Knuff: If you do not invoke it in this case, U.S.G., as one of the members of the court said yesterday, would have the veto power to determine who is coming into this industry. For twenty years these defendants, good faith or no good faith, good intentions or bad intentions, have violated the Sherman Act. Three of these defendants control 89 percent of the gypsum board. U.S.G. can exercise the power that it has, and which Chief Justice White said should be neutralized, simply by inaction, and they intend to use this power, because in that section of their decree they only specify that they will license the present defendants, and it seems to me——

Judge Jackson: That is about the whole industry, is it not?

Mr. Knuff: That is right. It is all the board industry, 100 percent of it, but it seems to me to point out very forcefully the truth of Justice Jackson's observation in the International Salt case, that an anti-trust defendant will not

give up the fruits of his violations more completely than the court requires him to do.

The stand taken by U.S.G., if any proof is ever needed as to the truth of that statement, we have it right here.

I think that in order to promote the public interest, this court should create an atmosphere under which competition would have a chance to be revived, create the atmosphere, let someone come into this industry if they want to. If they do not want to, we cannot compel them to come in, but at [fol. 648] least in the public interest this court, I think, should create that atmosphere, so that any person who wants to come in here can get into this industry and possibly bring about some measure of competition in it that has not existed for twenty years.

Judge Jackson: Well, it will exist after this decree goes down, will it not?

Mr. Knuff: Not unless we get compulsory licenses, it will not.

Judge Jackson: Well, suppose compulsory licenses went to each of the present licensees, the present defendants; that is the whole industry.

Mr. Knuff: That is the whole industry.

Judge Jackson: U.S.G. owns the patents.

Mr. Knuff: That is right.

Judge Jackson: It is directed then, it would be directed in such a decree that the licensees here would not lose, as far as losing their investment and their business is concerned. Now, is the owner of a patent under the circumstances of this case compelled to give a license to any Tom, Dick, and Harry that applies for it?

Mr. Knuff: I think under the circumstances of this case, yes, Your Honor.

Judge Jackson: I do not know.

Mr. Knuff: I think that. If you want to create the atmosphere——

[fol. 649] Judge Jackson: Atmosphere! What is this business of atmosphere? That must be something that surrounds an industry. Here you have the whole gypsum board industry here.

Mr. Knuff: Yes.

Judge Jackson: Sure.

Mr. Knuff: You have the industry, but you do not have any opportunity for any other person to get into the industry. You have got a closed circle. You have drawn an iron curtain around this industry, and the old saying that you cannot teach an old dog new tricks will apply here. These defendants know what is expected of them. They do not need to meet any more. This conspiracy has a momentum, which is self-perpetuating.

So, what we are asking this court to do is to afford an opportunity for someone else to get into this business, albeit U.S.G. and the other licensees want to maintain the artificial structure which exists in the industry today.

Judge Jackson: I get your contention now. I just wanted to get your idea on it and explain to you how I felt about it.

Mr. Knuff: I understand, Your Honor.

Judge Garrett: You said they had been violating the law for twenty years.

Mr. Knuff: That is right.

Judge Garrett: You stand on that assertion, do you?

Mr. Knuff: Yes, 100 per cent.

Judge Garrett: Although the General Electric case had [fol. 650] been followed up until this last two years by the Supreme Court itself; isn't that right?

Mr. Knuff: That is right.

Judge Garrett: So how could they have been violating the law for twenty years? I understand your theory about it. That is, that when the court declares a certain thing the law, it must be assumed to have always been the law.

I have often wondered whether that was true. We are all familiar with the old expression: When counsel was arguing a point of law, the judge said, "Oh, that's not the law," and counsel very courteously responded, "That was the law until Your Honor spoke."

Now, was not the General Electric case the law?

Mr. Knuff: That is right.

Judge Garrett: Until the Supreme Court spoke.

Mr. Knuff: The General Electric case, insofar as the facts of the General Electric case are concerned, is still good law and has not been overruled.

Chief Judge Stephens: I thought you said it had been sufficiently embalmed so that it would never be any good any more.

Mr. Knuff: I think that is true.

Judge Garrett: I really wondered why in that Line Material case—Justice Douglas, I believe it was Justic Douglas—went very frankly to the heart of the matter and said, "We [fol. 651] ought to overrule that General Electric case."

I could understand this better and could follow it with much more ease if the court had overruled it instead of trying to keep the Electric case as the law or a part of the law and at the same time nullify it if the decree that you are contending for be granted.

I hope you will understand my position about this matter. I want to follow the Supreme Court.

Mr. Knuff: I know you do, Your Honor.

Judge Garrett: In every way that it should be followed. In fact, I must follow it. That is the law. That is the Supreme Court, that not only every citizen should follow, but, first of all, every court should follow. So I want to follow it, but I do not want to go beyond what it said in the decision affecting this case, unless there were proof here upon controverted questions concerning which you are insisting upon a decree.

Mr. Knuff: Well, we take the position that there are no questions of fact in dispute in this case, that the matters that are in dispute in this case are inferences, the facts themselves being admitted.

These defendants do not take the position that Mr. Lenci's testimony is incorrect. They do not take the position that Mr. Blagden's testimony is incorrect, they do not take the position that Mr. Griswold's testimony is incorrect, they do not take the position that C. O. Brown's testimony is in-[fol. 652] correct. They do not take the position that Mr. Frederick Tompkins' testimony is incorrect. In fact, they do not offer to disprove any of that. They do not agree with the inferences that we draw and, therefore, they say that since we draw different inferences, there are facts in dispute. I do not think that inferences in dispute is synonymous with facts in dispute.

Now, I want to call Your Honors' attention to one thing that will take me about three minutes to do, maybe four, possibly five, and then I am going to sit down.

We contend that there must be findings made in this case, and the reason why findings must be made I have already discussed and I am not going to go into it again. But, in addition to what I have already said, I want to call Your Honors' attention to certain salient facts in this case.

This court made findings before. It made findings on the basis, first, that the General Electric case sanctioned everything that the defendants did here; second, this court ruled that we had not made out a prima facie case of conspiracy and, therefore, the declarations were not binding upon all of the defendants; and, third, this court ruled that the evidence fails to disclose that the defendants associated themselves in a plan to blanket the industry and stabilize prices.

Now, each one of those facts, each one of those circumstances was reversed in the Supreme Court. The former findings were made on the basis of those three circumstances. [fol. 653] The Supreme Court said that the General Electric case did not apply. The Supreme Court said that the declaration rule did apply and they were binding upon all the defendants. The Supreme Court said that there was a plan.

Now, obviously, since this court's prior findings were made on the basis of those three circumstances, which I have mentioned; and since the Supreme Court has said that they were wrong, certainly, I think that in the light of what the Supreme Court said—in fact, as I interpret it, in the directive of what the Supreme Court said, this court is required to change its findings and make findings in accordance with the fact that the General Electric case does not apply, make findings in accordance with the proposition that the declarations are binding, and make findings in accordance with the principle that there was a plan to blanket the industry under patent license agreements and stabilize prices.

I think that is all I have to say. Thank you.

Chief Judge Stephens: You leave me, Mr. Knuff, entirely mystified as to what the position of the Government really is in this case. I thought when you made a motion for summary judgment and asked the court to make it on the basis of the rule which provided that there shall be a summary judgment if there is no genuine issue of material fact.

Mr. Knuff: That is right.

Chief Judge Stephens: And that being conceded in the [fol. 654] case, that patent licenses with price fixing provisions were executed on an industry-wide basis and that the parties adhered to them, that under the decision of the Supreme Court warranted summary judgment.

That was the theory on which my colleagues announced, as I understood them, that summary judgment would be entered. But you now tell, as I understand your argument during the last half hour, that the Supreme Court did not decide in Topic III of its decision that plurality of licenses with price fixing provisions was illegal, except for the preliminary purpose of determining whether or not there was a conspiracy sufficient to allow the court to rely on those declarations.

If you take the position that the Supreme Court has not decided that a plurality of licenses with price fixing provisions, industry-wide, and adhered to, which is undisputed in the case, is illegal and ask for the summary judgment to be entered on some other theory, it must be on the theory that the Supreme Court has decided the whole case on the facts although the defendants have never been heard.

Now, the defendants deny, as I pointed out in the opinion of this court, after admitting the undisputed facts about the execution of the license agreements and the terms thereof and the price fixing provisions and the adherence thereto, the defendants deny that they have violated Sections I, II, and III, of the Sherman Act, or any of such sections, by [fol. 655] being parties to contracts in restraint of trade and commerce or by combining and conspiring to restrain trade and commerce, or by attempting to monopolize and monopolizing trade and commerce in gypsum board, plaster, and miscellaneous gypsum products, or in any manner charged in the complaint, or at all. They deny the allegations of paragraph 46 of the complaint to the effect that the license agreements were entered into by concerted action to give color of legality to the combination and that they were not bona fide license agreements, reasonably designed to give to U.S.G. the pecuniary reward for valid patent monopolies; they assert that on the contrary the license agreements were bona fide in both law and fact and were reasonably designed to secure to U.S.G. the pecuniary reward to which it was entitled for its valid patent monopolies.

The defendants have never had a hearing on those allegations in their answer. And if you are asking this court, the majority of the court, to enter a summary judgment, not upon the theory that the Supreme Court has held that the plurality of licenses with price fixing provisions industry-wide and adhered to is illegal, but upon the theory that it decided the whole case, then it seems to me you are either saying the Supreme Court has decided the case while there were issues of fact and it decided it in a manner which would deny the defendants the right to be heard, or else you are asking this court to do that. In which event, for the first [fol. 656] time, I think, anyone has asked the court to decide a case in denial of due process of law, because certainly the defendants are entitled to a hearing on the controverted issues in this case.

Mr. Knuff: May I speak on that?

Chief Judge Stephens: Yes, sir.

Mr. Knuff: The defendants have had their day in court. The defendants filed their proffer of proof. This court held that under the proffer of proof, even if everything that they testified to were true, it would not bring about any change.

Chief Judge Stephens: Mr. Knuff, I can save time, I think, although I want to hear you clear through, if I say I think the answer to that is that the reason my colleagues granted the motion for summary judgment was because they thought the Supreme Court had decided that a plurality of patent licenses with price fixing provisions, adhered to throughout the industry, had been held illegal by the Supreme Court and, therefore, these other issues were immaterial; but you say now that is not the decision of the Supreme Court.

Mr. Knuff: No, Your Honor, I did not say that.

Judge Jackson: I did not understand you to say that, did you?

Mr. Knuff: No, I do not say that, Your Honor. I say that the Supreme Court said that, but the Supreme Court said something else. When the Supreme Court said that a plurality of licenses in this case showed a conspiracy, I pointed [fol. 657] out that they were using that expression in connection with the declaration rule.

The Supreme Court did say that a plurality of licenses, on page 400, was wrong:

"The General Electric case affords no cloak for the course of conduct revealed in the voluminous record in this case. That case gives no support for a patentee, acting in concert with all members of an industry,"— under which patent licenses are entered into by the terms of which the industry is completely regimented.

The Supreme Court decided that a plurality of patent licenses was bad, but they decided something more than that. They did not decide just that. Do I make myself clear?

Chief Judge Stephens: I am sorry. Perhaps I am obtuse, Mr. Knuff, but I thought during the first fifteen or twenty minutes of your argument this afternoon you spent most earnestly asserting that Article III of the Supreme Court's opinion was only a tentative decision for the purpose of determining whether or not there had been action in concert, whether legal or illegal, to use your phrase, and that the Supreme Court had not decided that a plurality of licenses with price fixing provisions, industry-wide, and adhered to was illegal. I am sorry if I misunderstood you.

[fol. 658] Judge Jackson: I thought you said that a mere plurality of licenses was not per se or of itself illegal, but I did not understand you to say that licenses with price-fixing provisions that are adhered to and covering the whole industry does not show a violation of the Sherman Act.

Mr. Knuff: I think that——

Judge Jackson: Did you?

Mr. Knuff: I think plurality of licenses with price-fixing is illegal. I think that.

Judge Jackson: Sure, if it covers the whole industry.

Mr. Knuff: I think that, yes, indeed, and I think the Supreme Court said that.

Chief Judge Stephens: Well, with great respect to my colleagues and to all counsel, it seems to me, having heard argument for two days here now, that we are right back where we were on the motion for summary judgment. It seems to me what the Government is really asking this court to do, what my colleagues will be doing if they enter this summary judgment on the Government's theory, is to deny the defendants a right to be heard on the controverted issues in this case under the pleadings, and I think no summary

judgment is justified under those circumstances, and I respectfully and earnestly protest against it.

Judge Garrett: In view of that, I would like to say that I shall not agree to a decree with respect to the summary [fol. 659] judgment which goes beyond those specific findings of fact that the Supreme Court made and which have been pointed out here again and again.

If a decree is demanded with respect to facts not proven, certainly, I will not agree to it.

Judge Jackson: But at the same time any decree that is issued should be sufficiently strong to restrain the defendants, any and all of them, from doing the things that the Supreme Court has held to be a violation of the Anti-Trust Act.

Chief Judge Stephens: My colleagues think that the statement which I made yesterday, that we hoped to reach a decision on the terms of this decree by the first of the coming month was over-optimistic. In view of the complexity of the argument and the many suggestions made by the defendants and the Government, both my colleagues feel and ask me to announce that they probably will not be able to reach a decision on the decree until the summer is closed.

You, perhaps, ought to know that because you may wish to make your own plans accordingly.

Thank you for helping us, gentlemen, to the best of your ability. We appreciate all that has been said on both sides.

Mr. DeWitt, did you have some comment?

Mr. DeWitt: May we have an opportunity, if so advised, to submit additional memoranda with respect to the issues raised in this discussion?

[fol. 660] Chief Judge Stephens: How much time do you wish? We would like to restrict the memoranda as low as possible, because the more memoranda that are filed, the more there are to answer and the more delay, therefore, is entailed.

Mr. DeWitt: I should need certainly not more than 30 days, and if the court feels I should have less, less.

Chief Judge Stephens: Does anyone else wish to file a memorandum?

Mr. Connelly: I had not expected to make any such suggestion, because I had been under the impression that the entire matter was to be dealt with in argument here

today, but if memoranda should be filed, it presents the problem, we would like an opportunity to reply to it, if it should then seem desirable.

Chief Judge Stephens: Let us have an understanding now and have it over with. If anyone wants to present a further argument of authority or argument, let him so speak now or forever after keep silent.

Mr. Finck: If Your Honor please, I think we would like to file one.

Chief Judge Stephens: For National?

Mr. Finck: For National and Baker.

Mr. DeWitt: And Newark Plaster.

Chief Judge Stephens: And for Newark Plaster.

Judge Jackson: Well, then, the Government, of course, [fol. 661] ought to have an opportunity to come back.

Chief Judge Stephens: On what subject, Mr. DeWitt?

Mr. DeWitt: With respect to the provisions that should go into the decree in the light of my argument today. I have not had an opportunity to go through the decree and pick out provisions which it seems to me would be inconsistent with the provisions that we think should be included. We would like to have that opportunity.

Judge Jackson: You just merely want to collate for us the things you would like to have in there. You are not going to write a brief and argue them all, are you?

Mr. DeWitt: I would like to make a brief summary of the provisions we think should go in.

Chief Judge Stephens: That might be helpful to my colleagues. What do you want to present?

Mr. Finck: I would like to do the same thing.

Chief Judge Stephens: 30 days. How much time would you like to comment on that, Mr. Steffen, and Mr. Knuff?

Mr. Connelly: I suspect, if the court please, those memoranda are going to be directed to U.S.G.

Chief Judge Stephens: That is true. How much time would you like to have?

Mr. DeWitt: If the court please, I do not have in mind any elaborate memorandum of law to burden the court.

Chief Judge Stephens: I think it would be helpful to my [fols. 662-663] colleagues if they had your suggestions.

Judge Jackson: Make them short.

Mr. DeWitt: That is my purpose.

Mr. Connelly: Ten days.

Chief Judge Stephens: Ten days after the serving of the memorandum by Mr. Finck and Mr. DeWitt. And what for the Government?

Mr. Knuff: Ten days, if we care to. I do not know whether we will or not.

Judge Jackson: How much time are you giving them?

Chief Judge Stephens: 30 days.

Judge Jackson: 30 days and ten days.

Chief Judge Stephens: 40 days in all.

Mr. Miller: It is understood by the court that Mr. Dallstream is going to file with you within the next day or so the decree in the form we have discussed it in our statement.

Judge Jackson: Oh, yes, he said he had it circled there and would later give it to us.

Mr. Dallstream: It will be done tomorrow, sir.

(Whereupon, at 5:20 o'clock p.m., the oral argument in the above-entitled cause was concluded.)

[fol. 664] IN THE DISTRICT COURT OF THE UNITED STATES
FOR THE DISTRICT OF COLUMBIA

[Title omitted]

MEMORANDUM OF DEFENDANT NEWARK PLASTER COMPANY
—Filed July 14, 1949

Defendant Newark Plaster Company respectfully requests that the following two provisions be incorporated in any decree that may be entered by the Court herein and that nothing be incorporated in any other provision of the decree which will be inconsistent with the said two provisions:

1. A provision to the effect that the existing license agreements between defendant United States Gypsum Company and the other defendants are illegal, null and void.

To accomplish this, we propose that section VII, subdivision 1 of the decree proposed by the Government be amended so as to read as follows:

[fol. 665] "VII

1. That each of the license agreements relating to board, metallized board and perforated lath which have been heretofore entered into between defendant United States Gypsum Company and each of the other corporate defendants or their predecessors or assignors and with defendant Samuel M. Gloyd, is adjudged unlawful under the anti-trust laws of the United States and is illegal, null and void."

2. A provision ordering and directing defendant United States Gypsum Company to grant to each of the other defendants, licensees herein, a non-exclusive license under each patent relating to gypsum products which defendant United States Gypsum Company either now owns or controls or may hereafter own or control, a separate license agreement to be offered with respect to each separate patent, or where there is a related group of patents, with respect to each such related group.

To accomplish this, we propose that section VI, subdivision 1 of the decree proposed by the Government be amended so as to read as follows:

"VI

1. That defendant United States Gypsum Company is hereby ordered and directed to grant to each of the other defendants herein that may apply therefor, but only insofar as defendant United States Gypsum Company has the right to do so, a separate, non-exclusive license to make, use and vend under each patent and patent application, or, where there is a related group of patents or patent applications, under the patents and patent applications in such related group, now or hereafter owned or controlled by defendant United States Gypsum Company relating to gypsum products, their processes or methods of manufacture, or their uses."

[fol. 666] I.

In support of the request to include in the decree a provision declaring the existing license agreements illegal, null and void, we rely upon the following:

(1)

Statements in the opinion of the United States Supreme Court in this case clearly indicating that the Supreme Court considered the entire agreements, and not merely the price fixing provisions thereof, invalid, as follows:

(a) "The licensor was to fix minimum prices binding both on itself and its licensees; the royalty was to be measured by a percentage of the value of all gypsum products, patented or unpatented; the license could not be transferred without the licensor's consent; the licensee opened its books of accounts to the licensor; the licensee was protected against competition with more favorable licenses and there was a cancellation clause for failure to live up to the arrangements." Slip Opinion, page 23.

(b) "The license agreements and the bulletins establish the conspiracy of the licensor and each licensee to violate the Sherman Act." Slip Opinion, page 27.

(c) "The provision in the license contracts that royalties should be paid on the production of unpatented board is strongly indicative of an agreement not to manufacture unpatented board, * * *." Slip Opinion, page 31.

(d) "The defendants did undertake to control prices and distribution, in gypsum board." Slip Opinion, page 34.

(2)

The decree in the Masonite case, which case this Court has been told closely parallels the present case, pro- [fol. 667] vided expressly that the *del credere* contracts therein involved, were illegal, null and void.

(3)

Practical considerations in connection with the negotiation of new license agreements support the request for a

provision in the decree declaring the existing license agreements illegal, null and void. If this Court in its decree merely states that the price fixing provisions of the old license agreements are illegal, leaving the inference that this Court finds all other provisions valid, questions as to the propriety of including such other provisions in new agreements will be the subject of dispute. Examples of such provisions are:

(a) Whether royalties may be properly required to be paid by the licensee under a license agreement, whether the licensee uses the patents or not.
(b) Whether defendant United States Gypsum Company as licensor shall have the right to inspect the books, records and accounts of each licensee.
(c) Since the price fixing provisions are inextricably intertwined with the other provisions, whether any given provision is a price fixing provision and therefore illegal.

The Court will be careful to note that the suggestion that a provision that each of the patent licenses is cancelled and terminated, is equivalent to a provision that they are illegal, [fol. 668] null and void, is entirely unsound. In the colloquy on the argument, Judge Jackson was quick to recognize this fact, and asked counsel whether counsel would approve as an addition to the statement that the patent licenses are cancelled and terminated, a further statement that such cancellation and termination was made because the patent licenses were illegal. As we recall, counsel in his reply to Judge Jackson indicated that he did not consider a provision for cancellation and termination of the agreements equivalent to a provision holding that the license agreements are illegal, null and void; nor did counsel agree to adopt Judge Jackson's suggestion that the decree state that the agreements were cancelled and terminated because they were illegal, null and void.

If there is included in the decree the provision requested to the effect that the license agreements are illegal, null and void, we submit that there is no need to include a provision for the cancellation and termination of the existing agreements, since if the agreements are pronounced illegal,

null and void, we are not concerned with a formal cancellation or termination of them.

Therefore, in addition to the above proposed amendment to section VII, subdivision 1 of the Government's proposed decree, we request that section VII, subdivision 2 of the Government's proposed decree be amended by omitting therefrom at the beginning thereof the words:

> "That from and after the effective date of the cancellation provided for in sub-section 1 of this section"

so that section VII, subdivision 2 will commence with the [fol. 669] words "Each defendant is hereby enjoined ***."

II.

If this Court concludes that there should not be included in its decree the proposed provision to the effect that existing license agreements are illegal, null and void, then we respectfully request that this Court include in its decree a provision stating clearly that the price fixing provisions of the license agreements alone are illegal, null and void and that all the other provisions of the license agreements are legal.

For the reasons given above, we do not believe that this Court should include such a provision as that just mentioned but we submit that it is better to have a clear-cut provision on the question of the illegality of the provisions of the license agreements rather than one that is ambiguous or none at all.

III.

The second provision that we respectfully request the Court to include in any decree entered herein, is a provision directing defendant United States Gypsum Company to grant to each of the other defendants herein a non-exclusive license under each patent relating to gypsum products which defendant United States Gypsum Company either now owns or controls or may hereafter own or control, a separate license agreement to be offered with respect to each patent, or where there is a related group of patents, with respect to each such related group.

In support of this second proposed provision, we rely upon the following:

[fol. 670] (1)

If defendant Newark Plaster Company cannot obtain licenses under patents owned or controlled by defendant United States Gypsum Company, it may find itself in a position where it is unable to compete at all in the manufacture of gypsum products. The result of the withdrawal of defendant Newark Plaster Company and other small companies similarly situated from the manufacture of gypsum products would concentrate still further the control of the gypsum board industry in the hands of the remaining companies, the principal one of which would be United States Gypsum Company. If the small companies therefore, are wiped out through inability to obtain licenses under patents owned or controlled by United States Gypsum Company, the entire purpose of the litigation will be defeated.

(2)

What has just been said about the necessity of a license agreement under existing patents applies with equal force to patents relating to gypsum products which defendant United States Gypsum Company may acquire and own or control in the future. If defendant United States Gypsum Company does acquire far-reaching patents radically changing the methods of manufacture of gypsum products, and those patents are not made available to such small companies as defendant Newark Plaster Company, those small companies will be unable to compete and will have to abandon the field to the larger companies, thereby bringing about a greater concentration of control of the industry in the hands of one or more of the large companies.

[fol. 671] (3)

The necessity for a separate license under each patent or related group of patents is illustrated in one of the forms of license agreements submitted to defendant Newark Plaster Company under date of June 7, 1949. This proposed license agreement purports to grant a license under any or all of certain patents specified therein by number. Three of the four patents specified relate to the bubble process. The fourth relates to something entirely different,

i.e., the perforated lath patent. The royalty payable under the proposed license agreement would be the same whether the licensee used all the patents or merely the perforated lath patent. In other words, a licensee who might want to use the perforated lath patent alone would have to pay the same royalty that he would pay if he used the perforated lath patent and the bubble patents. There would seem to be no good reason why each licensee should not be permitted to take a license to use the perforated lath patent for a specified royalty and a separate license to use the group of related patents involving the bubble process.

Respectfully submitted, Benjamin P. DeWitt, Attorney for Defendant Newark Plaster Company.

[fol. 672] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

[Title omitted]

SUPPLEMENTAL MEMORANDUM OF DEFENDANTS NATIONAL GYPSUM COMPANY AND MELVIN H. BAKER—Filed July 16, 1949

For the reasons stated in their memorandum dated March 4, 1949 and orally to this Court June 14, 1949, Defendants National Gypsum Company and Melvin H. Baker respectfully submit, for the convenience of this Court, the following outline for a fair and equitable decree in this action. The decrees proposed by the Government and United States Gypsum Company have been used as the bases for this outline and the Articles contained herein have been adopted in whole or in part from the said proposed decrees. Where modifications are suggested, the additions or substitutions have been underscored and the omissions noted.

Under the circumstances we respectfully request this Court to adopt:

[fol. 673] ARTICLE I

Government's proposed Article I.

ARTICLE II

United States Gypsum Company's proposed Article II, omitting therefrom as unnecessary, paragraph 4 thereof defining "minimum price provisions."

ARTICLE III

Government's proposed Article III, modified as follows:

> "The *defendant companies,* and each of them, have contracted, combined, and conspired to restrain trade and commerce in gypsum *board* and have monopolized, attempted to monopolize, trade and commerce in gypsum board among the several States, in violation of Section 1 of the Sherman Anti-Trust Act."

The words "and 2" in the Government's proposal have been omitted herefrom.

ARTICLE IV

Government's proposed Article IV, modified as follows:

> "That the provisions of this decree applicable to any *defendant company* shall apply to such defendant and to each of its officers, servants and employees, and to each of its successors and assigns and to all persons [fol. 674] acting or claiming to act, through or for such defendant."

The word "attorneys" in the Government's proposal has been omitted herefrom.

ARTICLE V

Government's proposed Article V, modified as follows:

> "That the *defendant companies,* in connection with the offering for sale, sale, and distribution of gypsum *board* in interstate commerce, be and each of them hereby is jointly and severally enjoined and restrained from *restraining trade in gypsum board among the several States in the eastern territory of the United States by* entering into, continuing, cooperating in, or carrying

out any planned common course of action, undertaking, agreement, combination or conspiracy between two or more of such defendants or between any one or more of such defendants and *other manufacturers of gypsum board,* to fix, establish, maintain, control, or make uniform the prices, terms and conditions of sale at which gypsum board shall be sold."

The following parts of the Government's proposal have been omitted herefrom: The phrase in the preamble "to do or perform any of the following things"; the words in paragraph 1 "or resold"; and paragraphs 2-10.

ARTICLE VI

Government's proposed Article VI, except the words "and XI" should be deleted where appearing in paragraph 2, and the term "gypsum products," appearing in para-
[fol. 675] graph 1, should read "gypsum board."

ARTICLE VII

Government's proposed Article VII, modified as follows:

"That each and all of the patent license agreements, and other arrangements relating to board and perforated lath, set forth in the attached schedule, are hereby *declared to be null and void and are hereby* cancelled. Each *defendant company* is hereby enjoined and restrained from further performance of any such agreement, contract, assignment or other arrangements and from adopting, adhering to or entering into any future substantially similar arrangement, contract, assignment or other arrangements."

The clause following the semi-colon in paragraph 1 and the clause preceding the first comma in paragraph 2 of the Government's proposal have been omitted herefrom.

ARTICLE VIII

United States Gypsum Company's proposed Article VIII.

ARTICLE IX

United States Gypsum Company's proposed Article IX, as modified below:

"Judgment is hereby entered against the defendant companies for ....% of the costs, to be taxed in this [fol. 676] proceeding as *follows:*

The Celotex Corporation	....%
Certain-teed Products Corporation	....%
Ebsary Gypsum Company, Inc.	....%
National Gypsum Company	....%
Newark Plaster Company	....%
Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company	....%
United States Gypsum Company	....%

ARTICLE X

United States Gypsum Company's proposed Article VII. Respectfully submitted, Elmer E. Finck, Finck & Huber, Attorneys for National Gypsum Company and Melvin H. Baker

---

[fol. 677] [File endorsement omitted]

IN THE DISTRICT COURT OF THE UNITED STATES
FOR THE DISTRICT OF COLUMBIA

[Title omitted]

REPLY MEMORANDUM OF UNITED STATES GYPSUM COMPANY—
Filed July 25, 1949

I.

Licensee's Proposal

The defendant licensees propose that the patent licenses in the case be declared illegal in their entirety and that the United States Gypsum Company (hereinafter referred to as "Gypsum") be compelled to grant licenses to all appli-

cants under all of its patents now owned or hereafter acquired. The form of decree in this respect filed on behalf of Celotex since the arguments, with modifications has been proposed by Newark and National in their memoranda.

(a) In this connection it is important to bear in mind that (1) the motion of plaintiff for summary judgment was sustained upon the theory that the Supreme Court had held that the plurality of patent licenses, industry-wide with price-fixing provisions adhered to by the defendants with knowledge of the adherence of others was *ipso facto* illegal [fol. 678] as in violation of the Sherman Act, notwithstanding the assumed legality of each separate patent license, and (2) the defendants, in entering into the license agreements, acted in the utmost good faith in reliance upon the doctrine of the *General Electric* case as it was then construed by the Supreme Court and the Bar.

The Government's position, upon the present state of the record, that it is entitled to judgment on the theory that all of the controversial issues of fact have been conclusively determined against the defendants, is untenable. Notwithstanding the issues raised by the pleadings, counsel asserted that the Supreme Court, having held there was a *prima facie* case of conspiracy, the defendants are conclusively bound thereby and must therefore be held to have associated themselves in a plan to blanket the industry and stabilize prices, as set forth in paragraph 45 (a) to (e) of the complaint (Tr. 8266, 8268-71). They said that the *prima facie* case, including the declarations, had now become conclusive (Tr. 7978, 8018), and that the plurality of licenses industry-wide was not the conspiracy in the case (Tr. 8272). Counsel ignored the suggestion of the court that the defendants had never had a hearing on the allegations in their answers (Tr. 8291-4).

Notwithstanding their original argument upon the motion for summary judgment that all these controversial issues were to be laid aside as immaterial (Tr. 7985-6, 7988-94, 7998-8002), counsel for plaintiff now, for the purpose of obtaining the findings of fact and a decree beyond the scope of the determination, insist that the Supreme Court found conclusively that the defendants had associated themselves in a plan to blanket the industry and stabilize prices as [fol. 679] charged and that the so-called *prima facie* case

became binding in all respects against the defendants without any opportunity to be heard. Although urging upon the motion that the summary judgment should be granted upon the plurality of license theory, they now, when they come to a decree, seek findings of fact and provisions in the decree wholly outside of that theory.

(b) It is clear upon the present state of the record that the only facts which have been conclusively determined in the case are those within the scope of the determination upon the motion for summary judgment and which plaintiff urged were admitted by defendants upon the presentation of its motion. These are that the defendants constituted all former competitors in the gypsum board industry, that the defendants executed patent license agreements, industry-wide, with price-fixing provisions, and that the defendants in an entire industry adhered to the price-fixing provisions of the license agreements with knowledge of the adherence of others.

Upon those facts and the fact that the defendants were acting in the utmost good faith in relying upon the doctrine of the *General Electric* case, there is no ground upon which the court could decree that Gypsum be required to grant compulsory licenses to all applicants or to defendant licensees under its patents now owned or hereafter acquired at reasonable royalties to be fixed by the court. The defendant licensees are in no other position with respect to this question than is the Government in representing the public interest.

The other evidence in the case upon which the Supreme Court commented in holding there was a *prima facie* case, including the declarations, is in controversy between the [fol. 680] parties and no finding with respect thereto could be made by the court without opening the case and giving each of the defendants its day in court. If the Government or defendant licensees claim there are any other admissible facts upon which they would be entitled to a decree for compulsory licensing, the court may not consider it without giving Gypsum an opportunity to be heard. To deny Gypsum the right to be heard and enter any such decree, is but to deprive Gypsum of its property without due process of law, in violation of its constitutional rights.

(c) Never has a court imposed compulsory licensing upon a patent owner in a case like this. Out of the scores of anti-trust cases involving the use of patents in violation of the Sherman Act, compulsory licensing has been imposed over the patentee's objection in only two or three cases. The Court has sustained such a decree where it was required to preclude the resumption of deliberate unlawful practices because of a persistent manifestation by the defendants of a purpose to violate the Anti-trust Act. In other words, after a careful analysis and understanding of all the facts and circumstances of the case, the Court has found that the requirement for compulsory licensing is necessary to prevent further violations of the Act in aid of the injunctive provisions of the decree. It has never permitted any blanket decree for compulsory licensing but, on the contrary, has limited the requirement to meet the exigencies of the particular case and limited the patents to which it was applicable.

The Court has held that to require a decree for compulsory licensing at reasonable royalties for any reason other than that stated above is but to impose penalties in the guise of preventing future violations.

[fol. 681] II.

Decree Proposed by Celotex

The proposed decree suggested by Andrew J. Dallstream at the hearing on Tuesday, June 14, 1949, on behalf of Celotex and other defendant licensees contains the same provisions as the decree suggested by counsel for the United States Gypsum Company except with respect to Articles IV and VI.

(a) Peculiarly, the defendant licensees, by the suggested amendment to Article IV, would ask the court to adjudge "each patent license" unlawful and illegal, when, as a matter of fact the motion for summary judgment was decided upon the concert of action theory above mentioned. It is concert of action with respect to the price provisions of the group of licenses which, according to this court's view of the Supreme Court's opinion, constituted a violation of the Sherman Act. Why, then would these defendants suggest such a change in the decree wholly beyond the

holding of the Supreme Court, the scope of the determination upon the motion for summary judgment, and in a case where no such provisions are warranted? Not even the Government suggested that the entire contract be declared illegal until defendant licensees suggested it.

It is true that in the *Masonite* case the contracts were adjudged illegal, but in that case there was no motion for summary judgment the granting of which limited the scope of the determination as in this case. Judgment there was rendered after the defendants had had their day in court. Here it is the adherence to the price provisions of the plurality of licenses industry-wide with knowledge of the adherence of others which, according to the majority view [fol. 682] of this court, the Supreme Court held was a violation of the Sherman Act.

The provisions suggested by us to the effect that (1) the minimum price provisions of the patent licenses are declared to be illegal, and (2) each of the patent licenses is cancelled and terminated, give effect to the legal conclusion reached by the Supreme Court as construed by this court, and adequately meet the requirements of the decision made upon the motion for summary judgment.

The defendant licensees can have no purpose in making the suggestion that each patent license be adjudged illegal except to obtain some advantage with respect to the use of the patents. They apparently believe it will relieve them from accounting for anything done either before or after the Supreme Court's decision.

(b) The defendant licensees would ask this court to adopt in lieu of Article VI of Gypsum's suggested decree the punitive provisions of Article VI of the Government's decree. Notwithstanding the fact that they make no material objection to the forms of licenses submitted on behalf of Gypsum, they ask the court, in a case like this, to grant compulsory licensing by granting to any applicant a license under all patents and patent applications now or hereafter owned or controlled by Gypsum relating to gypsum board, their processes or methods of manufacture or their uses. They even suggested that there was a patent umbrella under which, for the payment of license fees by them and funds contributed by Gypsum, there was a laboratory and research program available to the industry. Such an idea was never

thought of, much less at any time discussed. It is without any support in the record and we are compelled to say [fol. 683] that it is untrue.

Defendant licensees' suggestion in this respect is inconsistent with their position elsewhere with respect to the decree. In one breath they accept the view that there is nothing in the case which could possibly bring condemnation upon the defendants and in another, to satisfy their desire for the use of Gypsum's future patents without any right whatsoever, they would demand a punitive compulsory licensing provision against Gypsum. If the Government is not entitled to such a provision, no defendant is.

The licenses offered by Gypsum under our suggested Article VI give these defendants, in so far as they need any protection upon the cancellation of their contracts, everything they now have under their present license agreements, including most reasonable royalties with respect to which no complaint has been made. The licenses are the same as those they now have except there are no pricing provisions, royalties are to be computed only upon the basis of board produced by use of the patents, all provisions criticized by the Government have been omitted except that there is a provision for inspection of books and records to verify royalty payments, which, however, at the licensee's election is to be made by an independent public accountant. They are drawn in such form that each of the licensees may take a license under any one or all of the patents described in the particular license.

Not only would they join in the Government's demand for compulsory licensing in a case like this, but defendant licensees would extend the demand to every applicant for the use of all of Gypsum's board patents, present, past and [fol. 684] future, and for all time. They would strip Gypsum of its property rights by restricting Gypsum from disposing of its patents without exacting a similar requirement from its purchaser after notice to the Attorney General and by paragraph 3 of Article VI would impose restrictions against the use by Gypsum of its own property.

The purpose behind this most unusual demand by defendants against whom the Government is also seeking a decree, is to anticipate the termination of the licenses under present existing patents through the expiration of

all of the patents by May 1954. The only basis upon which a court could include in the decree a provision for compulsory licensing at reasonable royalties is that it is necessary to do so to prevent further continuance of the violation enjoined in the decree. It must be a necessary aid to the injunctive provisions of the decree. Defendant licensees make no such claim nor could they upon the record of this case.

They have no right of any kind to Gypsum's patents in the future any more than if their licenses had expired without this litigation. With the cancellation of their present licenses they should only be placed in *statu- quo* to the extent that any licensee desires to continue the use of any of Gypsum's patents under which it is presently licensed.

It is clear in this case that defendant licensees are not entitled to the use of Gypsum's patents any more than Gypsum is entitled to the use of theirs. In fact, where compulsory licensing is necessary it has been held proper to provide that the licensor, as a condition to granting the license, could require the applicant to grant it a license under any pertinent patent owned by applicant. In other words, if it [fol. 685] is necessary, it is necessary to go further than counsel would request, which merely demonstrates *that it is not at all necessary in this case.*

III

Decree Proposed by Newark

In a separate memorandum Newark Plaster Company requests a decree adjudging the license agreements illegal and granting the defendant licensees a license under all patents now or hereafter owned by Gypsum. This company, although asking upon oral argument that the defendant licensees should have the benefit of improvements on patents covered by the present licenses, now requests that Gypsum be compelled to give a license under each patent relating to *all gypsum products* which Gypsum now owns or controls or may hereafter own or control. Such a decree is not warranted under the circumstances of this case.

(a) In the first place, Newark seeks a provision that each of the license agreements be adjudged unlawful under the anti-trust laws and illegal, null and void, which not

only goes beyond the scope of the determination by this court upon the motion for summary judgment but has for its purpose an attempt to be relieved from accounting, as stated before in this memorandum.

To accomplish this purpose Newark adopts Section VII, subsection 1, of the Government's decree by striking out the provision for cancellation of the license agreements and inserting in lieu thereof a provision adjudging all of the license agreements unlawful under the anti-trust laws and illegal, null and void. The provision suggested by Gypsum in Article IV of its suggested form provides that the minimum price provisions of the patent licenses be declared [fol. 686] illegal and that each of the patent licenses be cancelled and terminated, which not only keeps the judgment within the scope of the determination but for all time puts an end to the license agreements complained of by the Government.

(b) In the second place, Newark, in its memorandum, demands the provision as stated directing Gypsum to grant to each of the other defendant licensees under each patent relating to all gypsum products of every kind which Gypsum either now owns or controls or may hereafter own or control. To accomplish this it adopts Section VI of the Government's decree by making changes in subdivision 1 of Section VI to provide that Gypsum grant such a license to each of the other defendants that may apply therefor.

Counsel, having abandoned his idea for a license under the unexpired board patents and improvements on inventions covered by such patents, not only seeks all of Gypsum's patents now or hereafter owned relating to gypsum products of every kind, including plaster, but would enjoin Gypsum from disposing of its own property and from including any condition in any license except those specifically provided in subdivision 3 of Article VI of the Government's decree, which is *limited to a nontransferable license, a reasonable non-discriminatory royalty, and cancellation upon failure of licensee to pay royalties.* In addition, such license must provide that licensee may cancel the same at any time upon thirty days' notice, that licensee shall have the benefit of any more favorable terms which may at any time be granted to any other licensee, and that Gypsum shall have no right to inspect the books to deter-

mine whether the licensee is accounting for the royalties which it owes. Furthermore, in counsel's suggestion Gyp- [fol. 687] sum is subjected to the other punitive provisions of subsections 4 to 6 of Article VI of the Government's decree.

(c) Counsel quotes from the opinion of the Supreme Court to support his statement that the Supreme Court considered the entire agreements and not merely the price-fixing provisions invalid. Like the Government, for this purpose counsel would argue that Gypsum was conclusively bound by all that was said by the Supreme Court in determining that there was a *prima facie* case, without giving Gypsum its day in court. The simple fact is that there is no basis upon the present state of the record for any determination of a violation of the Sherman Act except upon the theory that the Supreme Court held that the plurality of patent licenses, industry-wide with price-fixing provisions adhered to by the defendants with knowledge of the adherence of others was *ipso facto* illegal as in violation of the Sherman Act.

Counsel points to the *Masonite* case, saying that it provided expressly that the *del credere* contracts there were illegal, null and void. Of course it did, for the reasons heretofore stated in Point II (a) of this memorandum.

Counsel argued that if this court did not declare the license agreements illegal, null and void it would leave the inference that the court finds all other provisions valid. No such inference could be drawn from a decree which declared the price-fixing provisions illegal where the other provisions were not involved in the determination upon the motion for summary judgment.

Counsel misinterprets Mr. Connelly's argument with respect to the provision that the price-fixing provisions be held to be illegal and that the license agreements be can- [fol. 688] celled. What Mr. Connelly said was that the scope of the determination upon the motion for summary judgment was limited to the price-fixing provisions of the license agreements and that none of the other provisions of the agreement have been passed upon by the Court. Counsel also misinterprets Judge Jackson in the colloquy referred to (Tr. 8253). Judge Jackson simply asked whether you could read into the provision for cancellation that

it was made for the reason that the minimum price provisions were illegal, and Mr. Connelly (contrary to counsel's statement) said, "That could be read in, sure. * * * It could be so interpreted." Counsel overlooks Chief Judge Stephens' comment (Tr. 8244) when the latter said that he understood the motion for summary judgment was decided on the ground that the Supreme Court had decided that the plurality of licenses with price-fixing provisions, industry-wide, adhered to by the parties, was illegal.

Counsel seeks to crowd the court into his view by insisting that if the court concludes that only the price-fixing provisions are illegal, then it must declare that all the other provisions of the license agreements are legal. The other provisions have not been passed upon by the Supreme Court. Anything the court may have said with respect to a *prima facie* case could only be conclusively determined after the defendants had had their day in court.

(d) In support of his contention that Newark is entitled to a license under all of Gypsum's patents relating to all products of every kind, counsel said Newark may find itself in a position where it is unable to compete at all in the manufacture of gypsum products, a statement which has no support in the record and the accuracy of which we deny. [fol. 689] This is simply a bid to acquire the larger company's patents, something to which it is not entitled. It is not equity they are seeking. Equity follows the law.

Notwithstanding the fact that the question of control in the gypsum board industry is not in issue before the court on this motion, counsel argued that the result of the withdrawal of Newark and other small companies from the manufacture of gypsum products would concentrate still further the control of the gypsum board industry in the hands of the remaining companies, the principal one of which is Gypsum. He urges that if the small companies were wiped out through inability to obtain licenses under patents owned by Gypsum, the entire purpose of the litigation will be defeated. We thought Newark was a defendant to litigation which had for its purpose the determination of the question of the right of the defendants, including Newark, to enter into the license contracts within the doctrine of the *General Electric* case. The patent laws have not yet been socialized, nor have we reached the point in

our judicial procedure where courts will decide questions not in issue before them.

Not content with making a bid for Gypsum's patents, past, present and future, in the board industry, counsel asserted that the necessity for a license agreement applies with equal force to patents relating to other gypsum products which defendant Gypsum may acquire and own or control in the future. In other words, even where there is no issue in the case with respect to any licenses under patents relating to gypsum plaster and other miscellaneous gypsum products, counsel demands that the court award to Newark and other licensee defendants the use of all Gypsum's patents on such products now or hereafter owned. [fol. 690] They might just as well have asked for Gypsum's bank accounts. Wholly outside any issue in the case, counsel goes on to say that if Gypsum acquires far-reaching patents radically changing the methods of manufacture of such products and those patents are not made available, some of the defendant licensees will be unable to compete and will have to abandon the field to the larger companies. Need we reply to such a statement in a case like this except to say that it is a figment of imagination? What possible issue at this stage of the case is involved which would warrant this court in taking from Gypsum its property upon the theory that it might acquire some far-reaching patents radically changing the methods of manufacture of gypsum products? If we could look into Newark's files and gaze into the crystal ball, we might say the same thing about Newark.

It is not uncommon, that competitors will seek advantage over one another, but courts must be on their guard when they listen to such a plea. There is no equity in giving one competitor the patent rights of another. No judgment for use of another's patents has ever been entered except in the most extreme cases where patents had been deliberately used to violate the law and defraud others, and then only in the public interest which we have shown is not warranted in this case. If, as stated before, the Government is not entitled to such a decree, no defendant is.

Counsel finally urges that a separate license under each patent or related group of patents is necessary. We recognized this when we offered our licenses to the defendants.

We submitted a license under the board patents which included the three remaining bubble or foam patents and the perforated patent which was included in the former board [fol. 691] licenses. We also submitted a license under the related metallized group of patents and a license under the single remaining bundling patent. Nobody has raised any question with respect to any of these licenses except as to some minor details and the question raised by Newark that it should have a separate license under the perforated patents because it does not need the principal board patents. If it had been good enough to call our attention to this situation we would have been happy to offer it a separate license under the perforated patents.

IV.

Decree Proposed by National

In a supplemental memorandum National Gypsum Company made the same demand as Newark except they requested a license under all patents relating to *gypsum board* which Gypsum now owns or controls or may hereafter own or control, to *any applicant* and adopted the same general pattern as Newark except it was presented in the form of suggested amendments to the decree which it asked the court to adopt. National like Newark, is one of those companies which seeks to have the entire license contract declared illegal, apparently believing it will relieve them from accounting with respect to anything done before or after the decision of the Supreme Court.

(a) Article III of National's proposed decree provides in substance that each of the defendant companies had conspired to restrain trade and commerce in gypsum board and had monopolized such commerce in violation of Section 1 of the Sherman Act. Although in its modification of the Government's provision National eliminated any reference to Section 2 of the Sherman Act, it [fol. 692] apparently overlooked the fact that it left in the article the provision that the defendants had monopolized and attempted to monopolize trade and commerce.

National requests a provision covering a blanket charge of a conspiracy to restrain trade and commerce in gypsum board among the several states in violation of the Sher-

man Act. They have heretofore joined in the position that the scope of the determination upon the motion for summary judgment is founded alone upon the concert of action theory. No decree should be entered upon the motion in this case which goes beyond the determination that the defendants, by adhering to the minimum price provisions of the patent licenses, acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board in violation of Section 1 of the Sherman Act.

Counsel's suggestion in this respect was obviously influenced by his desire for a decree declaring that each of the license agreements was illegal under the Sherman Act.

(b) Article V of National's proposed decree adopting the Government's proposed Article V, as modified by it, in substance enjoins the defendant companies from restraining trade by entering into any plan, common course of action, combination or conspiracy between two or more of the defendants or between one or more of the defendants and other manufacturers of gypsum board to fix or make uniform prices, terms and conditions of sale at which gypsum board shall be sold.

We object strenuously to the adoption of this provision with such loose terms as "any plan, common course of [fol. 693] action," whatever that may be. It is a phrase borrowed by the Government from a Federal Trade Commission order to cease and desist in a case which involved unfair trade practices and other issues not involved in this case.

We think it is unfair in a case like this to suggest a decree to enjoin the defendants from conspiring between any one or more of such defendants and other manufacturers of gypsum board. The record is clear that the only action of which the Government may complain on its motion for summary judgment is concert of action in adhering to the price-fixing provisions of the license agreements where the defendants were acting in the utmost good faith in reliance upon the doctrine of the *General Electric* case. To extend the injunction to a general charge of conspiring to fix prices with others is unwarranted under the circumstances of this case.

(c) Article VI of National's proposed decree is an adoption of the Government's proposed Article VI except that they have deleted the words "and XI" in paragraph 2, and the term "gypsum products" in paragraph 1 they have changed to read "gypsum board."

This, with the changes mentioned, is an adoption by National of all the punitive provisions of Article VI of the Government's decree. We have already shown the objections to this article in our memorandum under the headings "Decree Proposed by Celotex" and "Decree Proposed by Newark" and will not repeat them here. It is enough to say here that there is no basis in this case for a punitive decree in favor of the Government, nor in "favor" of National to satisfy its desire to use this lawsuit to obtain Gypsum's future patents.

[fol. 694] (d) Article VII of National's proposed decree adopts Article VII of the Government's decree as modified by omitting the clause following the semi-colon in paragraph 1 and the clause preceding the first comma in paragraph 2 of the Government's proposed decree, and inserting a provision declaring the license to be null and void.

The vice of the modification lies in the provision that the patent license agreements and other arrangements relating to board and perforated lath set forth in the attached schedule are declared to be null and void. Here again is an attempt to have the entire patent license agreement declared illegal notwithstanding the fact that the scope of the determination on the motion for summary judgment lies within the concert of action theory. We have pointed out before in this memorandum the objections to such a provision and will not repeat them here.

V.

Revised License Agreements

We have revised the license agreements submitted to the court by putting the three remaining board patents in one license and perforated in another at the same royalties originally paid for the use of these patents, respectively, and in the new license agreements we have included the few additional minor details called to our attention after the last draft was submitted to the licensees.

It is important to keep in mind that in a few years all these patents will have expired. There are only three general board patents left, the last of which expires May 4, 1954. The last of the metallized board patents expires on [fol. 695] October 1, 1952. The only remaining bundling patent expires on February 6, 1951, and the perforated lath patent expires on December 5, 1950.

The demand of the licensees is for new patents when and if acquired which have nothing to do with the present license agreements.

We submit herewith revised copies of the four license agreements which contain all suggestions which have been made and contain no provisions objected to by the Government except only the right to inspect the books to determine whether the royalties are properly accounted for and in which case the licensee is entitled to have the inspection made by an independent certified public accountant who has no connection whatsoever with Gypsum. These licenses give the defendant licensees full protection for everything to which they are entitled.

Respectfully submitted, Albert R. Connelly, Cranston Spray, Hugh Lynch, Attorneys for United States Gypsum Company

July 23, 1949

Certificate of Service (omitted in printing).

[fol. 696] [File endorsement omitted]

IN UNITED STATES DISTRICT COURT

FINAL DRAFT OF LICENSE AGREEMENTS

SUBMITTED ON BEHALF OF UNITED STATES GYPSUM COMPANY —Filed July 25, 1949

[fol. 697] *License Agreement*

This Agreement, made this —— day of ——, A. D. 1949, by and between United States Gypsum Company, an Illinois corporation, of Chicago, Illinois, hereinafter referred

to as Licensor, and ——, a —— corporation, of ——, hereinafter referred to as Licensee,

Witneseth:

that

Whereas, one or more gypsum boards (as hereinafter defined) manufactured by Licensee, are made according to the processes or embodying the claims of one or more of the patents hereinafter mentioned, and Licensee desires to obtain a license to make, use, and sell the same through the full term thereof, and Licensor has agreed to grant such license upon the terms and conditions hereinafter stated;

Now, Therefore, in consideration of the sum of One Dollar and other good and valuable considerations, the receipt whereof is hereby acknowledged, and of the mutual covenants and agreements hereinafter contained, the parties hereto have agreed as follows, to-wit:

1. Licensor has agreed to and does hereby give and grant unto Licensee an indivisible and non-exclusive right, license, and privilege to use the process or processes, and inventions and improvements claimed in any and all of the following letters patent:

[fol. 698]

Patent Number	*Date*	*Expiration Date*
2017022	October 8, 1935	October 8, 1952
2079338	May 4, 1937	May 4, 1954
2080009	May 11, 1937	May 11, 1954

in the manufacture of gypsum board as hereinafter defined, at the plants or factories now owned or operated by Licensee, or at any other plant or factory hereafter owned or operated by it or any subsidiary, associated or affiliated company, and of manufacturing at any such place or places, selling and using in the United States of America, and the territories and possessions thereof, gypsum board maunfactured under the processes or embodying the inventions and improvements claimed in said patents, for the full term of the last to expire of said letters patent, including any reissues thereof.

Licensor also agrees promptly to disclose to Licensee all information and formulae, not heretofore disclosed to Li-

censee, which it now has or may obtain relating to the process of making a cellular product through the formation of tenacious foam and mixing the foam with a cementitious material as set forth and claimed in applications for United States Letters Patent as originally filed by Carlisle K. Roos, Serial Nos. 733197, 3477, and 142155, and by Erik C. Bayer, Serial No. 661723, or in Letters Patent Nos. 2017022, 2079338, and 2080009, in so far as the same is or may be applied to gypsum, and including all information and formulae for the manufacture of gypsum board embodying the inventions and improvements set forth and claimed in the aforesaid applications or letters patent.

2. Licensee agrees to pay to Licensor for the right and pravilege granted under Paragraph 1 above a license fee or royalty at the rate of one percent (1%) of Licensee's selling price of all gypsum board manufactured under any of the [fol. 699] processes or embodying any of the inventions covered by said patents and sold by it during the term hereof, provided that no license fee or royalty shall be payable on gypsum board exported by Licensee to any foreign country.

Licensee's selling price shall mean the net price at Licensee's shipping point after deducting transportation charges and cash discounts allowed by Licensee; provided however, that in the case of laminated gypsum board, except with a metallized surface, the net price for the purposes hereof shall be deemed to be Licensee's net price at the time of sale in the same market area, determined as above provided, for the quantity of plain gypsum board actually used or incorporated therein.

3. The license herein granted shall be personal to the Licensee and shall not be sold, assigned or transferred, either voluntarily, or by operation of law, without the written consent of Licensor; *Provided, however,* that the license may be assigned by Licensee to any company acquiring all of Licensee's gypsum and gypsum board business, and assets pertaining thereto, or all of the capital stock of Licensee, on condition that Licensee shall first obtain, and deliver to Licensor, such assignee's written agreement to assume all of the obligations of Licensee hereunder and

agreeing to be bound by all of the terms and conditions hereof.

4. Licensee agrees to keep separate, full and accurate books of account and records showing the exact quantity of all gypsum board manufactured under any of the processes or embodying any of the inventions covered by said patents and sold by it, together with the Licensee's selling [fol. 700] price thereof, and agrees that on or before the 20th day of each calendar month it will deliver to Licensor at its office in Chicago, Illinois, true written returns, verified under oath by an officer or other authorized agent of Licensee setting forth the quantity of all such gypsum board manufactured by it, and sold during the preceding calendar month, together with the selling price thereof as above defined. Licensee also agrees to pay to Licensor at its said office on or before the 20th day of each calendar month the hereinbefore stipulated royalties or license fees which may then be due under the terms of this agreement on account of all such gypsum board manufactured by it, and sold during the preceding calendar month.

5. Licensor, or its duly authorized representative, shall have the right at all reasonable times to inspect the books of account and records of Licensee referred to in Paragraph 4 hereof, and to make copies thereof and memoranda therefrom, *provided, however,* that upon written request of Licensee, such examination shall be made by a certified public accountant agreed upon between the parties hereto, in which event the expense thereof shall be borne equally by the parties. If the parties fail to agree upon the certified public accountant to make such examination, then Licensor shall name three certified public accountants of good standing, not directly or indirectly employed by it or in any other manner connected with it, and if Licensee shall not accept any one of them, then Licensor shall have the right to make such examination itself.

6. Licensee agrees that all gypsum board manufactured and sold by it under or embodying the claims of any of such patents shall be distinctly marked with the word [fol. 701] "Patent" followed by the numbers of any of the aforesaid patents, the claims of which are embodied in said gypsum board, and Licensee further agrees to dis-

tinctly mark said gypsum board with the words "Licensed under the above patents and also under the process claims of patent," followed by the number of any of the aforesaid patents of which any process claimed therein is utilized in the manufacture of said product; and Licensee further agrees to distinctly mark said gypsum board with any other appropriate notice as Licensor shall specify from time to time.

7. In the event either party shall at any time neglect, fail or refuse to keep or perform any of the conditions or agreements to be kept or performed by it under the provisions hereof, then the other party may at its election serve upon the party in default written notice of intention to terminate this license and specifying the alleged default. If the party in default shall not cure the default so specified within thirty (30) days thereafter, then the other party may, subject to the provisions of paragraph 8 below, cancel and terminate this agreement without any court action by serving upon the party in default written notice of its election so to do; provided, that neither party shall be relieved thereby from any liability accrued at the time of such termination.

8. If a party upon whom a default notice is served under Paragraph 7 above shall deny the specified defaults, in whole or in part, then the right of the other party to terminate this license by reason of the defaults alleged shall be suspended, provided the party served shall (a) within the said thirty (30) day period provided in Paragraph 7 above cure any defaults which are not denied and (b) submit [fol. 702] to arbitration the question as to whether the specifically denied defaults in fact occurred. In the event the arbitrators find that one or more of the alleged defaults have occurred, then the party in default shall cure the same within thirty (30) days from the date of the finding of such arbitrators. If not cured within said period the party serving such default notice, in addition to and without limitation upon any other rights and remedies which it may have hereunder, may cancel and terminate this agreement without any court action by serving upon the party in default written notice of its election so to do; provided, that

neither party shall be relieved thereby of any liability accrued at the time of such termination.

All arbitrations had under this Paragraph 8 shall be in accordance with the Rules then obtaining of the American Arbitration Association, excepting only that the time allowed for objecting to arbitrators, or indicating the order of preference for arbitrators, as submitted to the parties for such purpose by said Association or under its Rules, shall in no event be less than fifteen (15) days. The finding or findings of the arbitrators shall be final and conclusive. In the event the arbitrators shall find any license fees or royalties, or other sums of money herein required to be paid by the Licensee to the Licensor, are due and owing, the arbitrators shall in their findings fix and determine the amount thereof, and Licensor shall have the right (but without being limited to such remedy) to have a summary judgment entered in its favor against Licensee for the amount so found to be due by the Arbitrartors in any court of competent jurisdiction.

[fol. 703] 9. In the event the Licensee shall at any time be adjudicated a bankrupt, then the license hereunder shall immediately be and become cancelled and terminated, but the Licensor shall not thereby be prevented from collecting all license fees or royalties accrued hereunder at the time of such termination.

10. The waiver of any breach by either party shall not be interpreted as constituting a waiver of any other or further breach or breaches. Either party may specifically enforce this contract, or any of the terms, conditions and covenants thereof, by injunction or in such other manner as may be permitted by law.

11. Any notice required or permitted to be served by either party upon the other under the terms hereof, may be served by mailing the same to the other party, postage prepaid and registered, addressed to such other party at its last known principal office, and the deposit of such notice in the United States mails, postage prepaid and so addressed, shall constitute service of notice hereunder.

12. In case Licensor shall grant to any other person any license under the aforesaid patents for the manufacture,

sale or use of gypsum board made by use of the processes or embodying the claims or inventions claimed in any of said patents, or shall grant any right under any such license, upon terms more favorable than those granted hereunder to this Licensee, then it will grant to this Licensee a license on the same terms or extend to it the same right granted to any such other person.

13. The term "gypsum board" shall be understood to mean all board made of gypsum, by whatever name called, [fol. 704] having the characteristics of gypsum plasterboard or gypsum wallboard, irrespective of the purpose for which the same may be sold or used, and shall include gypsum laths, laminated gypsum board, and all other gypsum boards. The term "laminated gypsum board," means a unit or assembly of units consisting of a gypsum board having attached to one or both faces thereof a layer or layers of gypsum board, insulation board, decorated paper simulating wood veneers or tile, or other material, but as used in the proviso to Paragraph 2 above shall not include gypsum board having a metallized surface.

14. If Licensor shall at any time during the existence of this agreement make or obtain any improvement for the formation of the bubbles or foam described in the process set forth in applications for United States Letters Patent as originally filed by Carlisle K. Roos, Serial No. 733197, 3477, and 142155, and by Erik C. Bayer, Serial No. 661723, or in Letters Patent Nos. 2017022, 2079338, and 2080009, or the method of its introduction into the core of gypsum board, and which improvement is covered by the claims of the aforesaid applications and letters patent, and shall itself use the same in its own manufacture, then so long as Licensee shall continue to pay the license fees or royalties hereinbefore stipulated, the right, license or privilege herein contained shall be extended to and include the use of said improvement in the manufacture by Licensee of gypsum board, subject to all of the terms and conditions herein contained, except only that Licensee shall not be required to pay any additional royalty or license fee therefor. It is further agreed that if a patent or patents shall be granted or issued for or upon said im-

provement, then all of the provisions of this agreement shall apply to the improvement set forth and claimed in any such patent or patents. Licensor will promptly notify [fol. 705] Licensee of the general adoption by it of any such improvement in its own manufacture, together with such information as it may possess as to the use thereof in the manufacture of gypsum board.

15. The Licensor agrees at any time during the term hereof to extend to Licensee, upon its written request, an indivisible and non-exclusive license or privilege to use the process or processes set forth and claimed in said Letters Patent Nos. 2017022, 2079338, and 2080009, in the manufacture in Licensee's plants of any other gypsum product not specifically covered by this agreement, and in which product Licensor shall use the same in its own manufacture, and to sell the same, upon the payment to Licensor of One per cent (1%) of Licensee's selling price of all of such other gypsum product or products (in the manufacture of which said process or processes are used), manufactured and sold by Licensee, upon the same terms as set forth herein and subject to all of the conditions hereof, in which event in the agreement for the same there shall be substituted for the words "gypsum board" the name of such other product or products. An agreement containing all of said terms and conditions shall be reduced to writing and signed by both parties before the same shall become effective.

16. This Agreement shall be effective as of the —— day of ——, 1949.

In witness whereof the parties hereto have caused these presents to be signed in duplicate by their respective presi- [fol. 706] dents, attested by their respective secretaries, and their corporate seal to be hereunto affixed, the day and year first above written.

United States Gypsum Company, By —— ——, President.

Attest: —— ——, Secretary.

—— ——, President.

Attest: —— ——, Secretary.

[fol. 707] LICENSE AGREEMENT

This agreement, made this —— day of ——, A. D. 1949, by and between United States Gypsum Company, an Illinois corporation, of Chicago, Illinois, hereinafter referred to as Licensor, and ——, a —— corporation, of ——, hereinafter referred to as Licensee,

Witnesseth:

That, whereas, Licensor is the owner of United States Letters Patent No. 1,938,354 relating to a perforated gypsum board particularly adapted for fire-resistant wall and ceiling construction and structures as covered by the claims of said patent; and

Whereas, Licensee desires an indivisible and non-exclusive license from Licensor herein, to manufacture, use and sell perforated gypsum board embodying the inventions and improvements set forth and claimed in said Letters Patent No. 1,938,354 upon the terms and conditions hereinafter set forth;

Now, Therefore, in consideration of the mutual covenants and agreements hereinafter contained, the parties hereto agree as follows, to-wit:

1. Licensor agrees to and does hereby give and grant unto Licensee an indivisible and non-exclusive right, license and privilege of manufacturing, at the plants or factories now or hereafter owned or operated by Licensee or any subsidiary, associated or affiliated company, perforated gypsum board embodying the inventions and improvements set forth and claimed in said Letters Patent No. 1,938,354, and of selling and using in the United [fol. 708] States of America, and the territories and possessions thereof, said perforated gypsum board manufactured by Licensee as aforesaid, for the full term of said Letters Patent, including any reissue thereof.

2. Licensee agrees to pay to Licensor for the right and privilege granted under Paragraph 1 above a license fee or royalty, for all perforated gypsum board, embodying any of the inventions and improvements set forth and claimed in said Letters Patent, which is manufactured and

sold by Licensee during the term hereof, at the rate of ten cents (10¢) per thousand square feet of surface area, provided that no license fee or royalty shall be payable on perforated gypsum board exported by Licensee to any foreign country.

3. The license herein granted shall be personal to the Licensee and shall not be sold, assigned or transferred, either voluntarily or by operation of law, without the written consent of Licensor; *Provided, however,* that the license may be assigned by Licensee to any company acquiring all of Licensee's gypsum and gypsum board business, and assets pertaining thereto, or all of the capital stock of Licensee, on condition that Licensee shall first obtain, and deliver to Licensor, such assignee's written agreement to assume all of the obligations of Licensee hereunder and agreeing to be bound by all of the terms and conditions hereof.

4. Licensee agrees to keep separate, full and accurate books of account and records showing the exact quantity of perforated gypsum board manufactured and sold by it under the right, license and privilege herein granted, and [fol. 709] agrees that on or before the 20th day of each calendar month it will deliver to Licensor at its office in Chicago, Illinois, true written returns, verified under oath by an officer or other authorized agent of Licensee setting forth the quantity of all such perforated gypsum board manufactured by it, and sold during the preceding calendar month. Licensee also agrees to pay to Licensor at its said office on or before the 20th day of each calendar month the hereinbefore stipulated royalties or license fees which may then be due under the terms of this agreement on account of all such perforated gypsum board manufactured by it, and sold during the preceding calendar month.

5. Licensor, or its duly authorized representative, shall have the right at all reasonable times to inspect the books of account and records of Licensee referred to in Paragraph 4 hereof, and to make copies thereof and memoranda therefrom, *provided, however,* that upon written request of Licensee, such examination shall be made by a certified public accountant agreed upon between the parties hereto, in which event the expense thereof shall be borne equally

by the parties. If the parties fail to agree upon the certified public accountant to make such examination, then Licensor shall name three certified public accountants of good standing, not directly or indirectly employed by it or in any other manner connected with it, and if Licensee shall not accept any one of them, then Licensor shall have the right to make such examination itself.

6. Licensee agrees that all perforated gypsum board manufactured and sold by it under or embodying any of the claims of said Letters Patent shall be distinctly marked [fol. 710] "Patent No. 1,938,354", and with the further words "Licensed under the above patent". Licensee further agrees to distinctly mark said perforated gypsum board with such other appropriate notice as Licensor shall specify from time to time.

7. In the event either party shall at any time neglect, fail or refuse to keep or perform any of the conditions or agreements to be kept or performed by it under the provisions hereof, then the other party may at its election serve upon the party in default written notice of intention to terminate this license and specifying the alleged default. If the party in default shall not cure the default so specified within thirty (30) days thereafter, then the other party may, subject to the provisions of paragraph 8 below, cancel and terminate this agreement without any court action by serving upon the party in default written notice of its election so to do; provided, that neither party shall be relieved thereby from any liability accrued at the time of such termination.

8. If a party upon whom a default notice is served under Paragraph 7 above shall deny the specified defaults, in whole or in part, then the right of the other party to terminate this license by reason of the defaults alleged shall be suspended, provided the party served shall (a) within the said thirty (30) day period provided in Paragraph 7 above cure any defaults which are not denied, and (b) submit to arbitration the question as to whether the specifically denied defaults in fact occurred. In the event the arbitrators find that one or more of the alleged defaults have occurred, then the party in default shall cure the same within thirty (30) days from the date of the find-

[fol. 711] ing of such arbitrators. If not cured within said period the party serving such default notice, in addition to and without limitation upon any other rights and remedies which it may have hereunder, may cancel and terminate this agreement without any court action by serving upon the party in default written notice of its election so to do; provided, that neither party shall be relieved thereby of any liability accrued at the time of such termination.

All arbitrations had under this Paragraph 8 shall be in accordance with the Rules then obtaining of the American Arbitration Association, excepting only that the time allowed for objecting to arbitrators, or indicating the order of preference for arbitrators, as submitted to the parties for such purpose by said Association or under its Rules, shall in no event be less than fifteen (15) days. The finding or findings of the arbitrators shall be final and conclusive. In the event the arbitrators shall find any license fees or royalties, or other sums of money herein required to be paid by the Licensee to the Licensor, are due and owing, the arbitrators shall in their findings fix and determine the amount thereof, and Licensor shall have the right (but without being limited to such remedy) to have a summary judgment entered in its favor against Licensee for the amount so found to be due by the Arbitrators in any court of competent jurisdiction.

9. In the event the Licensee at any time be adjudicated a bankrupt, then the license hereunder shall immediately be and become cancelled and terminated, but the Licensor shall not thereby be prevented from collecting all license fees or royalties accrued hereunder at the time of such termination.

[fol. 712] 10. The waiver of any breach by either party shall not be interpreted as constituting a waiver of any other or further breach or breaches. Either party may specifically enforce this contract, or any of the terms, conditions and covenants thereof, by injunction or in such other manner as may be permitted by law.

11. Any notice required or permitted to be served by either party upon the other under the terms hereof, may be served by mailing the same to the other party, postage prepaid and registered, addressed to such other party at

its last known principal office, and the deposit of such notice in the United States mails, postage prepaid and so addressed, shall constitute service of notice hereunder.

12. In case Licensor shall grant to any other person any license under the aforesaid Letters Patent for the manufacture, sale or use of perforated gypsum board embodying the claims or inventions claimed in said patent, or shall grant any right under any such license, upon terms more favorable than those granted hereunder to this Licensee, then it will grant to this Licensee a license on the same terms or extend to it the same right granted to any such other person.

13. Nothing herein contained shall be construed as granting any right, license or privilege under any Letters Patent other than Letters Patent No. 1,938,354, and it is understood that the royalties provided herein are in addition to the royalties or license fees provided under any other license agreement which may now or hereafter exist between the parties.

14. This agreement shall be effective as of the —— day of ——, 1949.

[fol. 713] In witness whereof the parties hereto have caused these presents to be signed in duplicate by their respective presidents, attested by their respective secretaries, and their corporate seals to be hereunto affixed, the day and year first above written.

United States Gypsum Company, By —— ——, President.

Attest: —— ——, Secretary.

—— ——, President.

Attest: —— ——, Secretary.

[fol. 714] LICENSE AGREEMENT

This agreement made this —— day of ——, A. D. 1949, by and between United States Gypsum Company, an Illinois corporation, of Chicago, Illinois, hereinafter referred to as Licensor, and ——, a —— corporation, of ——, hereinfter referred to as Licensee,

Witnesseth:

That in consideration of the mutual covenants and agreements herein contained, the parties hereto agree as follows, to-wit:

1. Licensor has agreed to and does hereby give and grant unto Licensee an indivisible and non-exclusive right, license, and privilege to make and use the machines and inventions set forth and claimed in United States Letters Patent No. 1946056 dated February 6, 1934, and expiring February 6, 1951, at the plants or factories now owned or operated by Licensee, or at any other plant or factory hereafter owned or operated and controlled by Licensee or any subsidiary, associated or affiliated company of Licensee, for the full term of said letters patent, including any reissue therefor.

2. Licensee agrees to pay to Licensor for the right and privilege granted under Paragraph 1 above a license fee or royalty of ten cents (10¢) per one thousand (1,000) square feet of gypsum board bundled with a machine constructed according to any one or more of the claims set forth or claimed in said letters patent, and sold by Licensee during the term hereof.

[fol. 715] 3. The license herein granted shall be personal to the Licensee and shall not be sold, assigned, or transferred, either voluntarily or by operation of law, without the written consent of Licensor, *provided, however,* that this license may be assigned by Licensee to any company acquiring all of Licensee's gypsum and gypsum board business, and assets pertaining thereto, or all of the capital stock of Licensee, on condition that Licensee shall first obtain, and deliver to Licensor, such assignee's written agreement to assume all of the obligations of Licensee hereunder, and agreeing to be bound by all of the terms and conditions hereof.

4. Licensee agrees to keep separate, full, and accurate books of account and records showing the exact quantity of all gypsum board bundled with a machine constructed according to any one or more of the claims set forth and claimed in said letters patent, and sold by Licensee, and agrees that on or before the 20th day of each calendar

month it will deliver to Licensor at its office in Chicago, Illinois, true written returns verified under oath by an officer or other authorized agent of Licensee, setting forth the quantity of all such gypsum board bundled by it with a machine constructed according to any one or more of the claims set forth in said letters patent, and sold during the preceding calendar month. Licensee also agrees to pay to Licensor at its said office, on or before the 20th day of each calendar month, the hereinbefore stipulated royalty or license fee which may then be due under the terms of this agreement on account of said gypsum board bundled by it as aforesaid, and sold during the preceding calendar month.

[fol. 716] 5. Licensor, or its duly authorized representative, shall have the right at all reasonable times to inspect the books of account and records of Licensee referred to in Paragraph 4 hereof, and to make copies thereof and memoranda therefrom, provided that upon written request of Licensee such examination shall be made by a certified public accountant satisfactory to Licensor, in which event the expense of such examination shall be borne equally by the parties.

6. Licensee agrees that all bundles of gypsum board bundled by it with a machine constructed according to any one or more of the claims set forth and claimed in said letters patent, shall be distinctly marked "Machine used in making this bundle covered by Patent No. 1,946,056," and Licensee further agrees to distinctly mark said bundles with such other appropriate notice as Licensor shall specify from time to time.

7. In the event either party shall at any time neglect, fail or refuse to keep or perform any of the conditions or agreements herein agreed to be kept or performed by it, then the other party may at its election serve upon the party in default written notice of intention to terminate this license, which notice shall specify the alleged default. If the party in default shall not cure the default so specified within thirty (30) days after such notice, then the other party may, subject to the provisions of Paragraph 8 below, cancel and terminate this agreement, without any court action, by serving upon the party in default written

notice of its election so to do; provided, that neither party shall be relieved thereby from any liability accrued at the time of such termination.

[fol. 717] 8. If a party upon whom a default notice is served under Paragraph 7 above shall deny the specified defaults, in whole or in part, then the right of the other party to terminate this license by reason of the defaults alleged shall be suspended, provided the party served shall (a) within the said thirty (30) day period provided in Paragraph 7 above cure any defaults which are not denied, and (b) submit to arbitration the question as to whether the specifically denied defaults in fact occurred. In the event the arbitrators find that one or more of the alleged defaults have occurred, then the party in default shall cure the same within thirty (30) days from the date of the finding of such arbitrators. If not cured within said period the party serving such default notice, in addition to and without limitation upon any other rights and remedies which it may have hereunder, may cancel and terminate this agreement, without any court action, by serving upon the party in default written notice of its election so to do; provided, that neither party shall be relieved thereby of any liability accrued at the time of such termination.

All arbitrations had under this Paragraph 8 shall be in accordance with the Rules then obtaining of the American Arbitration Association, excepting only that the time allowed for objecting to arbitrators or indicating the order of preference for arbitrators, as submitted to the parties for such purpose by said Association or under its Rules, shall in no event be less than fifteen (15) days. The finding or findings of the arbitrators shall be final and conclusive. In the event the arbitrators shall find that any li-

[fol. 718] cense fees or royalties, or other sums of money herein required to be paid by the Licensee to the Licensor, are due and owing, the arbitrators shall in their findings fix and determine the amount thereof, and Licensor shall have the right (but without being limited to such remedy) to have a summary judgment entered in its favor against Licensee for the amount so found to be due by the arbitrators in any court of competent jurisdiction.

9. In the event the Licensee shall at any time be ajudi-

cated a bankrupt, then the license hereunder shall immediately be and become cancelled and terminated, but the Licensor shall not thereby be prevented from collecting all license fees or royalties accrued hereunder at the time of such termination.

10. Nothing herein contained shall be construed as constituting a license for the manufacture, use or sale of gypsum board under any other patents or patent rights of Licensor, or as extending the term of any such license heretofore or hereafter granted by any other agreement between the parties hereto, and the royalty provided herein is in addition to any royalties or license fees provided in any such other agreement.

11. The waiver of any breach by either party shall not be interpreted as constituting a waiver of any other or further breach or breaches. Either party may specifically enforce this contract, or any of the terms, conditions and covenants thereof, by injunction or in such other manner as may be permitted by law.

[fol. 719] 12. Any notice required or permitted to be served by either party upon the other under the terms hereof, may be served by mailing the same to the other party, postage prepaid and registered, addressed to such party at its last known principal office, and the deposit of such notice in the United States mails, postage prepaid and so addressed, shall constitute service of notice hereunder.

13. In case Licensor shall grant to any other person a license under the aforesaid patent upon terms more favorable than those granted hereunder to this Licensee, then it will grant to the Licensee herein a license on the same terms granted to any such other person.

14. The term "gypsum board" shall be understood to mean all board made of gypsum, by whatever name called, having the characteristics of gypsum plasterboard or gypsum wallboard, irrespective of the purpose for which the same may be sold or used, and shall include gypsum laths and all other gypsum boards.

15. This agreement shall be effective as of the —— day of ——, 1949.

In witness whereof the parties hereto have caused these presents to be signed by their respective presidents, attested by their respective secretaries, and their corporate seals to be hereunto affixed in duplicate the day and year first above written.

United States Gypsum Company, By —— ——, President.

Attest: —— ——, Secretary.

By —— ——, President.

Attest: —— ——, Secretary.

[fol. 720] LICENSE AGREEMENT

This agreement, made this —— day of ——, A. D. 1949, by and Between United States Gypsum Company, an Illinois corporation, of Chicago, Illinois, hereinafter referred to as Licensor, and ——, a —— corporation, of ——, hereinafter referred to as Licensee,

Witnesseth:

That, whereas, Licensor is the owner of United States Letters Patent No. 1,914,345 relating to wall construction (hereinafter referred to as the Roos Patent) and is also the owner of certain patent rights set forth in Schedule A hereunto annexed, relating to building structures or elements for said structures; and

Whereas, Licensee desires an indivisible and non-exclusive license from Licensor herein, to manufacture, use and sell gypsum board under said Roos Patent and under said patent rights set forth in Schedule A hereof, and Licensor has agreed to grant such license upon the terms and conditions, but subject to the limitations hereinafter stated;

Now, therefore, in consideration of the mutual covenants and agreements hereinafter contained, the parties hereto agree as follows, to-wit:

1. Licensor agrees to and does hereby give and grant unto Licensee the indivisible and non-exclusive right, license, and privilege to make, use, and sell gypsum board

having a metallized surface, embodying the inventions disclosed and claimed in said Roos Patent and in the patents set forth in Schedule A, or in any of them; Provided, that the right, license, and privilege herein and hereby [fol. 721] granted is specifically limited to the gypsum board and building structures incorporating the same as set forth in Schedule A, and does not extend to any other product or structure.

2. Licensee agrees to pay to Licensor for the right and privilege granted under Paragraph 1 above, a royalty for all gypsum board having a metallized surface manufactured and sold by Licensee and which is covered by the claims of said Roos Patent or the patents set forth in Schedule A, or which is to be used in making structures covered by said patent or patent rights, at the rate of forty cents (40¢) per thousand square feet of surface area where only one face is metallized, and at the rate of fifty cents (50¢) per thousand square feet where both faces are metallized, of any product covered by the aforesaid patent or any of said patent rights.

3. The license herein granted is personal to the Licensee and shall not be sold, assigned or transferred, either voluntarily or by operation of law, without the written consent of Licensor; Provided, however, that the license may be assigned by Licensee to any company acquiring all of Licensee's gypsum and gypsum board business, and assets pertaining thereto, on condition that Licensee shall first obtain, and deliver to Licensor, such assignee's written agreement to assume all of the obligations of Licensee hereunder and agreeing to be bound by all of the terms and conditions hereof.

4. In case Licensor shall grant to any other person any license under the aforesaid patent or patent rights for the manufacture, sale or use of gypsum board having a metallized surface and embodying the claims or inventions set forth and claimed therein, upon terms more favorable than [fol. 722] those granted hereunder to Licensee, then Licensor shall grant to Licensee a license upon the same terms, or will extend to Licensee the same right granted to such other licensee.

5. Licensee agrees to keep true and accurate books of account showing the quantity of all gypsum board having one or more metallized surfaces, manufactured and sold by it under the rights, licenses, and privileges herein granted. Such books and records shall at all times during business hours be open to the inspection of Licensor or its duly authorized representative, and Licensor shall have the right to make copies thereof and memoranda therefrom, provided that upon written request of Licensee such examination shall be made by a certified public accountant satisfactory to Licensor, in which event the expense thereof shall be borne equally by the parties.

6. Licensee agrees that on or before the 15th day of each calendar month it will deliver to Licensor at its office in Chicago, Illinois, a written report, verified by an officer or other authorized agent of Licensee, showing the quantity of all such gypsum board manufactured by it (a) having one metallized surface, and (b) having two metallized surfaces, and sold during the preceding calendar month. Licensee also agrees to pay to Licensor at its said office on or before the 15th day of each calendar month the hereinbefore stipulated royalty which may then be due under the terms of this agreement on account of all such gypsum board so sold by Licensee during the preceding calendar month. For the purposes of this agreement a sale shall be considered to have been made not later than the date on which the goods are shipped by Licensee, without regard to passing of title or whether the goods are shipped on consignment, or otherwise.

[fol. 723] 7. Licensee agrees that all gypsum board having one or more metallized surfaces sold by it hereunder shall be distinctly marked with the word "Patent" followed by the number of any of the aforesaid patents, the claims of which are embodied in said gypsum board, and with the words "Wall structures having hollow spaces faced by said metallized surfaces, also covered by Patent No. 1,914,345"; and also with the words "Licensed under the above patents". Licensee further agrees to distinctly mark said gypsum board with such other appropriate notice as Licensor shall specify from time to time.

8. In the event Licensee shall at any time neglect, fail or refuse to keep or perform any of the conditions or agreements to be kept or performed by it under the provisions hereof, then Licensor may at its election serve upon Licensee written notice specifying the alleged default and stating, if Licensor so desires, its intention to terminate this license. If Licensee shall not cure the default so specified within thirty (30) days thereafter, then Licensor may, subject to the provisions of Paragraph 9 below, maintain any appropriate action hereunder, at law or in equity, for collection of royalties, or for damages, or for any other appropriate remedy, or Licensor may, if such intention was stated in the notice of default, cancel and terminate this agreement without any court action, by serving upon Licensee written notice of its election so to do; provided, that Licensee shall not be relieved thereby from any liability accrued at the time of such termination.

9. If Licensee shall deny, in whole or in part, the defaults specified in a notice served by Licensor under Paragraph 8 above, then Licensor's right to proceed as provided [fol. 724] in Paragraph 8 above shall be suspended, provided Licensee shall (a) within the said thirty (30) day period provided in Paragraph 8 above cure any defaults which are not denied, and (b) submit to arbitration the question as to whether the specifically denied defaults in fact occurred. In the event the arbitrators find that one or more of the alleged defaults have occurred, then Licensee shall cure the same within thirty (30) days from the date of the finding of such arbitrators. If not cured within said period then Licensor may proceed in such manner as it may elect as provided in Paragraph 8 above.

All arbitrations had under this Paragraph 9 shall be in accordance with the Rules then obtaining of the American Arbitration Association, excepting only that the time allowed for objecting to arbitrators, or the order of preference for arbitrators, as submitted to the parties for such purpose by said Association or under its Rules, shall in no event be less than fifteen (15) days. The finding or findings of the arbitrators shall be final and conclusive. In the event the arbitrators shall find any royalties, or

other sums of money herein required to be paid by the Licensee to the Licensor, are due and owing, the arbitrators shall in their findings fix and determine the amount thereof, and Licensor shall have the right (but without being limited to such remedy) to have a summary judgment entered in its favor against Licensee for the amount so found to be due by the arbitrators in any court of competent jurisdiction.

10. In the event (a) that Licensee shall be adjudicated a bankrupt, or (b) a receiver shall be appointed for Licensee, whose appointment shall not be vacated within sixty [fol. 725] (60) days thereafter, then the rights, licenses, and privileges herein granted to Licensee shall forthwith cease and determine, without further action on the part of the Licensor, provided that such termination shall not relieve Licensee of any liability then existing.

11. The waiver by Licensor of any breach on the part of Licensee shall not be interpreted as constituting a waiver of any further or other breach or breaches.

12. Any notice required or permitted to be served by either party upon the other under the terms hereof, may be served by mailing the same to the other party, postage prepaid and registered, addressed to such party at its last known principal office, and the deposit of such notice in the United States mails, registered, postage prepaid and so addressed, shall constitute service of notice hereunder.

13. The term "gypsum board" shall be understood to mean all board made of gypsum, by whatever name called, having the characteristics of gypsum plasterboard or gypsum wallboard, irrespective of the purpose for which the same may be sold or used, and shall include gypsum laths, laminated gypsum board, and all other gypsum boards.

14. Except as otherwise provided herein, this agreement shall remain in force for the full term of the last to expire of the Roos Patent and the patent rights set forth in Schedule A, and shall be binding upon and inure to the benefit of the parties hereto and their successors and assigns; provided that nothing in this paragraph contained shall be construed to permit any assignment hereof except as herein otherwise specifically provided.

Nothing herein contained shall be construed to relieve Licensee from the payment of royalties under license [fol. 726] agreement of even date herewith under Letters Patent Nos. 2017022, 2079338, 2080009, and 1938354, it being understood that the royalties provided herein are in addition to the royalties or license fees provided in such other agreement. In the event the exclusive right and license of Licensor as set forth in Schedule A hereof shall terminate for any reason whatever, whether on account of Licensor's default or otherwise, and such termination shall result in the termination of any of the rights, licenses and privileges herein granted to the Licensee, then this agreement shall immediately terminate without further act on the part of either of the parties hereto (subject however to revival and continuation as hereinafter provided), and without liability of any kind by Licensor to Licensee on account thereof, provided that Licensee shall not thereby be released from any then existing liability to Licensor. Licensor agrees that if its said exclusive right and license shall be so terminated, it will promptly notify Licensee thereof and, if Licensee's rights shall have terminated as aforesaid, then upon the written request of Licensee made to Licensor at any time within sixty (60) days after the giving of such notice, this license agreement shall continue in effect as to said Roos Patent, upon and subject to all the terms, provisions, and conditions hereof to the extent the same are applicable; provided however, that in such event it is expressly understood and agreed that Licensor shall not be liable to Licensee in any [fol. 727] way, directly or indirectly, for or by reason of any infringement or claimed infringement of the patents listed in Schedule A hereof.

15. Licensor hereby represents and warrants that it has the right to grant the license herein granted.

16. This agreement shall be effective as of the —— day of ——, 1949.

In witness whereof, the parties hereto have caused these presents to be signed by their respective Presidents, attested by their respective Secretaries, and their cor-

porate seals to be hereunto affixed, in duplicate, the day and year first above written.

United States Gypsum Company, By —— ——, President.

Attest: —— ——, Secretary.

By —— ——, President.

Attest: —— ——, Secretary.

[fol. 727-A] SCHEDULE A

Licensor has the exclusive right and license to make, use and sell building structures or elements for building structures where insulation is obtained by the use of gypsum board having a metallized surface under the following patents, known as the Alfol patents:

Inventor	*Patent No.*	*Issue Date*
Schmidt	1,890,418	December 6, 1932
Dykerhoff	1,934,174	November 7, 1933
Schmidt	2,015,817	October 1, 1935

together with any divisions, continuations, renewals or reissues thereof, but it is understood that the term "building structures" is limited to the walls, floors, roofs and ceilings of buildings and does not include pipes or ducts, or other heating apparatus installed in the building, or refrigerating or cooling apparatus or structures built into the building or not. Licensor has no right or license under the said patents to use metal foil for insulation except where such foil is applied to a nonmetallic member as a facing therefor.

[fol. 728] [File endorsement omitted]

IN THE DISTRICT COURT OF THE UNITED STATES FOT THE DISTRICT OF COLUMBIA

Civil Action No. 8017

UNITED STATES OF AMERICA, Plaintiff,

v.

UNITED STATES GYPSUM COMPANY; NATIONAL GYPSUM Company; Certain-teed Products Corporation; The Celotex Corporation; Ebsary Gypsum Company, Inc.; Newark Plaster Company; Samuel M. Gloyd, Doing Business Under the Name of Texas Cement Plaster Company; Sewell L. Avery; Oliver M. Knode; Melvin H. Baker; Henry J. Hartley; and Frederick Tomkins, Defendants

PRELIMINARY STATEMENT AND DECREE—November 7, 1949

This cause came on for trial before this Court on November 15, 1943. At the conclusion of plaintiff's presentation of the case, defendants moved, pursuant to Rule 41(b) of the Federal Rules of Civil Procedure, for judgment dismissing the complaint on its merits. The motion of defendants was granted August 6, 1946. The judgment so rendered by this Court was reversed by the Supreme Court of the United States, and the case was remanded to this Court for further proceedings in conformity with the opinion of the Supreme Court (333 U. S. 364).

Following the remand, the plaintiff, pursuant to Rule 56 of the Federal Rules of Civil Procedure, moved for summary judgment in its favor upon the pleadings and all of the proceedings which theretofore had been had in the case, or, in the alternative, for such further proceedings as this Court might direct, and defendants, by direction of the Court, filed proffers of proof.

[fol. 729] Argument by counsel for the respective parties upon the motion of plaintiff was heard by the Court, and after due consideration of such argument and of defend-

ants' proffers of proof, Garrett, J. and Jackson, J., constituting a majority of the Court, announced a ruling to the effect that plaintiff's motion for summary judgment would be granted, and Stephens, J., who presided during the trial, announced his dissent from such ruling.

Thereafter counsel for plaintiff and counsel for certain of the defendants submitted forms of final decrees for the consideration of the Court and also suggested findings of fact, the latter to be considered in the event the Court should deem it necessary to make any findings of fact additional to those originally found by it and to those stated in the opinion of the Supreme Court.

In due course, the Court heard arguments respecting the proposed decrees and the suggested findings of fact, and full consideration has been given thereto and to all prior proceedings—all being considered in the light of the decision of the Supreme Court which, as understood by the majority of this Court, held that the defendants acted in concert to restrain trade and commerce in the gypsum board industry and monopolized said trade and commerce among the several states in that section hereinafter referred to as the eastern territory of the United States, which section embraces all the states of the United States westward from the eastern coast thereof to the Rocky Mountains and including New Mexico, Colorado, Wyoming, and the eastern half of Montana.

Decree

The motion of plaintiff for a summary judgment is sustained and in conformity with the decision of the Supreme Court, as understood by the majority of this Court, and in obedience to its mandate, it is ordered, adjudged [fol. 730] and decreed:

Article I

This Court has jurisdiction of the subject matter hereof and of the parties hereto. The complaint states a cause of action against defendants under the Act of Congress of July 2, 1890, entitled "An Act to Protect Trade and Commerce Against Unlawful Restraints and Monopolies",

commonly known as the Sherman Antitrust Act, and acts amendatory thereof and supplemental thereto.

Article II

As used in this decree:

1. "Defendant companies" shall mean all of the corporate defendants and Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company.

2. The "Patents" shall mean United States Letters Patent and applications for United States Letters Patent owned by Defendant United States Gypsum Company which are described in the Patent Licenses, as hereinafter defined, and continuations in whole or in part, renewals, reissues, divisions, and extensions thereof.

3. "Gypsum board" shall mean plaster board or lath (including perforated and metallized lath) and wallboard (including metallized wallboard) made from gypsum and embodying any of the inventions or improvements set forth and claimed in any of the Patents.

4. "Patent Licenses" shall mean the patent license agreements which were in effect between defendant United States Gypsum Company and each of the other defendant companies at the time the complaint herein was filed and described in said complaint as follows:

Agreement dated October 15, 1929, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee;

[fol. 731] Agreement dated October 17, 1929, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee;

Agreement dated October 18, 1929, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee;

Agreement dated November 5, 1929, between United States Gypsum Company, as licensor, and Universal Gypsum and Lime Company (National Gypsum Company, as Assignee), as licensee;

Agreement dated November 25, 1929, between United States Gypsum Company, as licensor, and American

Gypsum Company (The Celotex Corporation, as Assignee), as licensee;
Agreement dated April 23, 1930, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Co., as Assignee), licensee;
Agreement dated February 10, 1937, between United States Gypsum Company, as licensor, and Texas Cement Plaster Company, as licensee;
Agreement dated October 5, 1934, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee (Metallized board);
Agreement dated October 12, 1934, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Company, as Assignee), as licensee (Metallized board);
Agreement dated November 2, 1934, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee (Metallized board);
Agreement dated December 4, 1934, between United States Gypsum Company, as licensor, and American Gypsum Company (The Celotex Corporation, as Assignee, as licensee (Metallized board);
Agreement dated August 14, 1935, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Metallized board);
Agreement dated June 8, 1938, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee (Perforated lath);
Agreement dated September 16, 1938, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee (Perforated lath);
[fol. 732] Agreement dated February 2, 1937, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Perforated lath);
Agreement dated September 16, 1938, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Perforated lath);
Agreement dated June 23, 1937, between United States Gypsum Company, as licensor, and Kelley Plaster-

board Company (Newark Plaster Company, as Assignee), as licensee (Perforated lath);
Agreement dated January 3, 1939, between United States Gypsum Company, as licensor, and Newark Plaster Company, as licensee (perforated lath), and any supplement or amendment to any of said patent license agreements.

Article III

The defendant companies have acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board and have monopolized trade and commerce in the gypsum board industry in violation of sections 1 and 2 of the Sherman Antitrust Act.

Article IV

Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void.

Article V

Each of the defendant companies and each of their respective officers, directors, agents, employees, representatives, subsidiaries, and any person acting or claiming to act under, through or for them or any of them are hereby enjoined and restrained from

(1) the further performance or enforcement of any of the provisions of the Patent Licenses, including any price bulletin issued thereunder;
[fol. 733] 2. entering into or performing any agreement or understanding among the defendants or any of them for the purpose or with the effect of continuing, reviving or reinstating any monopolistic practice.

(3) entering into or performing any agreement or understanding among the defendants or any of them in restraint of trade and commerce in gypsum board among the several states in the eastern territory of the United States by license agreements to fix, maintain

or stabilize prices of gypsum board or the terms and conditions of sale thereof.

Article VI

1. Defendant United States Gypsum Company is hereby ordered and directed to grant to each applicant therefor within 90 days after the effective date hereof, but only in so far as it has the right to do so, a non-exclusive license to make, use and vend under any, some, or all patents and patent applications now owned or controlled by it relating to gypsum board, provided that such license agreement fixes a royalty not to exceed the royalty on the same article or process fixed in the license agreements set out in Article II hereof.

2. Defendant United States Gypsum Company is hereby enjoined and restrained from making any sale or other disposition of any of said patents or patent applications which would deprive it of the power or authority to grant such licenses, unless in any sale, transfer or assignment it shall be required that the purchaser, transferee or assignee shall observe the provisions of this section.

Article VII

Nothing contained in this decree shall be deemed to have any effect upon the operations or activities of said [fol. 734] defendants which are authorized or permitted by the Act of Congress of April 10, 1918, commonly called the Webb-Pomerene Act, or the Act of Congress of August 17, 1937, commonly called the Miller-Tydings Act, or by any present or future act of Congress or amendment thereto; provided, however, nothing contained in this article shall in any manner affect the provisions of Article VI of this decree.

Article VIII

The forms of license agreement which the Court has this day ordered filed herein are hereby approved; and the tender by defendant United States Gypsum Company to each applicant for a license agreement containing the terms and conditions set forth in the applicable filed form or forms shall constitute compliance by defendant United States Gypsum Company with the provisions of Article VI.

Article IX

Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith.

Article X

Judgment is entered against the defendant companies for 50% of the costs to be taxed in this proceeding, and the costs so to be taxed are hereby prorated against the [fol. 735] several defendant companies as follows:

United States Gypsum Company	55%
National Gypsum Company	23%
Certain-teed Products Corporation	11%
The Celotex Corporation	3%
Ebsary Gypsum Company, Inc.	3%
Newark Plaster Company	4%
Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company	1%

Let the decree be entered.

(S.) Finis J. Garrett, J., (S.) Joseph R. Jackson, J.

STEPHENS, *J.*, dissents from the entry of a summary judgment against the defendants. In his view the defendants should be permitted to present their offered proof upon the issues of fact raised by their answers to the Government's complaint, and the court should then hear argument from counsel for the parties and, after weighing the evidence of both the Government and the defendants, make findings of fact and conclusions of law anew and render judgment according thereto.

(S.) Harold M. Stephens, J.

Dated: November 7, 1949.

[fol. 736] [File endorsement omitted]

IN UNITED STATES DISTRICT COURT
UNITED STATES

v.

UNITED STATES GYPSUM COMPANY, ET AL.

OPINION BY STEPHENS, J., ON MOTION FOR SUMMARY JUDGMENT—Filed November 7, 1949

STEPHENS, *J.*: I think that the entry of a summary judgment against the defendants is not warranted. The case was before the Supreme Court for review of the correctness of the trial court's mid-trial dismissal, under Rule 41 (b), Federal Rules of Civil Procedure, of the Government's complaint. The dismissal was after the Government had completed presentation of the evidence which it relied upon to sustain the charges in its complaint, but before any evidence had been presented by the defendants. As I read its opinion the Supreme Court determined that the Government's evidence established *prima facie* the violations of the Sherman Act, or some of them, charged in the Government's complaint. But these charges—outlined in paragraphs 44-46(a) inclusive, and detailed in paragraphs 47-123 inclusive, of the complaint are denied by the defendants' answers.[1] Hence

[1] The charges reduce themselves in essence to the following: (1) That the license contracts entered into between the defendant USG, as licensor, and the other defendants, as licensees, are themselves illegal as in restraint of trade in view of the nature of the patents upon which the contracts are based, in view of the fact that USG and the plurality of defendant licensees manufacture all of the gypsum board in the "Eastern area," and in view of the terms and conditions of the contracts, including those providing for the establishment of minimum prices on patented gypsum board to be made and sold by the defendants. (2) That the license contracts, even if valid on their face, were not entered into as bona fide license agreements, reasonably designed to secure to USG the pecuniary

there remain in the case genuine issues of material fact. This forbids the entry of a summary judgment for [fol. 737] under Rule 56 (c), Federal Rules of Civil Procedure, such a judgment can be rendered only "if the pleadings, depositions, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law. . . ." And I think that in setting aside the trial court's findings of fact and in saying that "By the record *now presented*" violation of the Sherman Act is clear and in saying that, as the order of dismissal came at the end of the Government's presentation on defendants' motion to dismiss under Rule 41 (b), "the order is reversed and the case remanded *for further proceedings in conformity with this opinion,*"[2] the Supreme Court meant that the defendants' evidence should be heard and the case disposed of by the trial court upon the merits on the issues raised by the complaint and the answers and upon findings of fact and

---

reward for valid patent monopolies, but were executed by the defendants merely to give color of legality to a combination to restrain trade, by control of the prices and terms and conditions of sale of gypsum board, plaster, and miscellaneous gypsum products throughout the gypsum industry. (3) That the defendants' operations were carried beyond the proper limits of a patent monopoly and licensing thereunder by raising and fixing at arbitrary and noncompetitive levels the price of gypsum board made and sold by the defendants, by improper standardization of gypsum board and its method of production, by raising, maintaining and stabilizing the level of prices of unpatented materials—plaster and miscellaneous gypsum products—by effectuating improper restriction upon distribution of gypsum board, plaster and miscellaneous gypsum products, and by fixing the prices at which manufacturing distributors resold gypsum board. (4) That the patents, or some of them, upon which such license agreements were purportedly based are invalid.

[2] *United States* v. *United States Gypsum Co.*, 333 U.S. 364, 401, 402 (1948); italics supplied.

conclusions of law to be made anew after a weighing of all of the evidence, *i.e.*, that to be presented by the defendants as well as that which has been introduced by the Government. It is in my view not to be thought that the Supreme Court contemplated denial to the defendants of their day in court upon the issues raised by the pleadings. But that is the effect of the summary judgment; the defendants have made offers of proof but they are not to be permitted to present evidence. It is true that it is without dispute in the case that patent licenses with price fixing limitations were executed by the defendants, that these licenses were, in the large, adhered to by each defendant with knowledge of the adherence of others, and that they were industry wide; and these undisputed facts were adverted to by the Supreme Court in the course of its opinion ruling that a *prima facie* case of conspiracy to violate the Sherman Act had been made out by the Government. But I do not read the opinion of the Court as ruling that such a plurality of patent licenses is, without more, conclusive, rather than merely *prima facie,* evidence [fol. 738] of a violation of the Sherman Act. Had the Court regarded such a plurality of licenses, without more, as conclusive evidence of a violation of the Act it would I think have overruled *United States* v. *General Electric Company,* 272 U.S. 476 (1926). This it did not do either in its decision in the instant case or in *United States* v. *Line Material Co.,* 333 U.S. 287 (1948). In the latter case the Sherman Act violation found by the Supreme Court was laid by it to the cross-licensing of the Lemmon and Schultz patents, not to the admitted plurality of licenses with price fixing provisions entered into, as the Court said, as the result of arm's length bargaining although with knowledge on the part of each licensee of price provisions in the licenses of others.

I think therefore that the defendants should be permitted to present their offered proof on the issues of fact raised by their answers to the Government's complaint and that the court should then hear argument by counsel for the parties and should, after weighing the evidence of both the Government and the defendants, make findings of fact and

conclusions of law anew and then render judgment according thereto.

(S.) Harold M. Stephens, J.

November 7, 1949.

[fol. 739] LICENSE AGREEMENTS—Filed November 7, 1949

This agreement, made this —— day of ——, A. D. 1949, by and between United States Gypsum Company, an Illinois corporation, of Chicago, Illinois, hereinafter referred to as Licensor, and ——, a —— corporation, of ——, hereinafter referred to as Licensee,

Witnesseth:

that

Whereas, Licensee desires to obtain a license to make, use and sell gypsum board made according to the processes or embodying the claims of one or more of the hereinafter mentioned patents, owned by Licensor, through the full term thereof and Licensor has agreed to grant such license upon the terms and conditions hereinafter stated;

Now, therefore, in consideration of the sum of One Dollar and other good and valuable considerations, the receipt whereof is hereby acknowledged, and of the mutual covenants and agreements hereinafter contained, the parties hereto have agreed as follows, to-wit:

1. Licensor has agreed to and does hereby give and grant unto Licensee an indivisible and non-exclusive right, license, and privilege to use the process or processes, and inventions and improvements claimed in any and all of the following letters patent:

Patent Number	*Date*	*Expiration Date*
2017022	October 8, 1935	October 8, 1952
2079338	May 4, 1937	May 4, 1954
2080009	May 11, 1937	May 11, 1954

in the manufacture of gypsum board as hereinafter defined, [fol. 740] at the plants or factories now owned or operated by Licensee, or at any other plant or factory hereafter owned or operated by it or any subsidiary, associated or

affiliated company, and of manufacturing at any such place or places, selling and using in the United States of America, and the territories and possessions thereof, gypsum board manufactured under the processes or embodying the inventions and improvements claimed in said patents, for the full term of the last to expire of said letters patent, including any reissues thereof.

Licensor also agrees promptly to disclose to Licensee all information and formulae, not heretofore disclosed to Licensee, which it now has or may obtain relating to the process of making a cellular product through the formation of tenacious foam and mixing the foam with a cementitious material, as set forth and claimed in applications for United States Letters Patent as originally filed by Carlisle K. Roos, Serial Nos. 733197, 3477, and 142155, and by Erik C. Bayer, Serial No. 661723, or in Letters Patent Nos. 2017022, 2079338, and 2080009, in so far as the same is or may be applied to gypsum, and including all information and formulae for the manufacture of gypsum board embodying the inventions and improvements set forth and claimed in the aforesaid applications or letters patent.

2. Licensee agrees to pay to Licensor for the right and privilege granted under Paragraph 1 above a license fee or royalty at the rate of —— per cent (——%) of Licensee's selling price of all gypsum board manufactured under any of the processes or embodying any of the inventions covered by said patents and sold by it during the term hereof, provided that no license fee or royalty shall be payable on gypsum board exported by Licensee to any foreign country.

[fol. 741] Licensee's selling price shall mean the net price at Licensee's shipping point after deducting transportation charges and cash discounts allowed by Licensee; provided however, that in the case of laminated gypsum board, except with a metallized surface, the net price for the purposes hereof shall be deemed to be Licensee's net price at the time of sale in the same market area, determined as above provided, for the quantity of plain gypsum board actually used or incorporated therein.

3. The license herein granted shall be personal to the

Licensee and shall not be sold, assigned or transferred, either voluntarily, or by operation of law, without the written consent of Licensor; *Provided, however,* that the license may be assigned by Licensee to any company acquiring all of Licensee's gypsum and gypsum board business, and assets pertaining thereto, or all of the capital stock of Licensee, on condition that Licensee shall first obtain, and deliver to Licensor, such assignee's written agreement to assume all of the obligations of Licensee hereunder and agreeing to be bound by all of the terms and conditions hereof.

4. Licensee agrees to keep separate, full and accurate books of account and records showing the exact quantity of all gypsum board manufactured under any of the processes or embodying any of the inventions covered by said patents and sold by it, together with the Licensee's selling price thereof, and agrees that on or before the 20th day of each calendar month it will deliver to Licensor at its office in Chicago, Illinois, true written returns, verified under oath by an officer or other authorized agent of Licensee setting forth the quantity of all such gypsum board manufactured by it, and sold during the preceding calendar month, together with the selling price [fol. 742] thereof as above defined. Licensee also agrees to pay to Licensor at its said office on or before the 20th day of each calendar month the hereinbefore stipulated royalties or license fees which may then be due under the terms of this agreement on account of all such gypsum board manufactured by it, and sold during the preceding calendar month.

5. Licensor, or its duly authorized representative, shall have the right at all reasonable times to inspect the books of account and records of Licensee referred to in Paragraph 4 hereof, and to make copies thereof and memoranda therefrom, *provided, however,* that upon written request of Licensee, such examination shall be made by a certified public accountant agreed upon between the parties hereto, in which event the expense thereof shall be borne equally by the parties. If the parties fail to agree upon the certified public accountant to make such examination, then Licensor shall name three certified public accountants of

good standing, not directly or indirectly employed by it or in any other manner connected with it, and if Licensee shall not accept any one of them, then Licensor shall have the right to make such examination itself.

6. Licensee agrees that all gypsum board manufactured and sold by it under or embodying the claims of any of such patents shall be distinctly marked with the word "Patent" followed by the numbers of any of the aforesaid patents, the claims of which are embodied in said gypsum board, and Licensee further agrees to distinctly mark said gypsum board with the words "Licensed under the above patents and also under the process claims of patent," followed by the number of any of the aforesaid patents of which any process claimed therein is utilized in the manufacture of said product; and Licensee further agrees to [fol. 743] distinctly mark said gypsum board with any other appropriate notice as Licensor shall specify from time to time.

7. In the event either party shall at any time neglect, fail or refuse to keep or perform any of the conditions or agreements to be kept or performed by it under the provisions hereof, then the other party may at its election serve upon the party in default written notice of intention to terminate this license and specifying the alleged default. If the party in default shall not cure the default so specified within thirty (30) days thereafter, then the other party may, subject to the provisions of paragraph 8 below, cancel and terminate this agreement without any court action by serving upon the party in default written notice of its election so to do; provided, that neither party shall be relieved thereby from any liability accrued at the time of such termination.

8. If a party upon whom a default notice is served under Paragraph 7 above shall deny the specified defaults, in whole or in part, then the right of the other party to terminate this license by reason of the defaults alleged shall be suspended, provided the party served shall (a) within the said thirty (30) day period provided in Paragraph 7 above cure any defaults which are not denied, and (b) submit to arbitration the question as to whether the specifically denied defaults in fact occurred. In the

event the arbitrators find that one or more of the alleged defaults have occurred, then the party in default shall cure the same within thirty (30) days from the date of the finding of such arbitrators. If not cured within said period the party serving such default notice, in addition to and without limitation upon any other rights and remedies which it may have hereunder, may cancel and terminate this agreement without any court action by serv- [fol. 744] ing upon the party in default written notice of its election so to do; provided, that neither party shall be relieved thereby of any liability accrued at the time of such termination.

All arbitrations had under this Paragraph 8 shall be in accordance with the Rules then obtaining of the American Arbitration Association, excepting only that the time allowed for objecting to arbitrators, or indicating the order of preference for arbitrators, as submitted to the parties for such purpose by said Association or under its Rules, shall in no event be less than fifteen (15) days. The finding or findings of the arbitrators shall be final and conclusive. In the event the arbitrators shall find any license fees or royalties, or other sums of money herein required to be paid by the Licensee to the Licensor, are due and owing, the arbitrators shall in their findings fix and determine the amount thereof, and Licensor shall have the right (but without being limited to such remedy) to have a summary judgment entered in its favor against Licensee for the amount so found to be due by the Arbitrators in any court of competent jurisdiction.

9. In the event the Licensee shall at any time be adjudicated a bankrupt, then the license hereunder shall immediately be and become cancelled and terminated, but the Licensor shall not thereby be prevented from collecting all license fees or royalties accrued hereunder at the time of such termination.

10. The waiver of any breach by either party shall not be interpreted as constituting a waiver of any other or further breach or breaches. Either party may specifically enforce this contract, or any of the terms, conditions and covenants thereof, by injunction or in such other manner as may be permitted by law.

11. Any notice required or permitted to be served by either party upon the other under the terms hereof, may be [fol. 745] served by mailing the same to the other party, postage prepaid and registered, addressed to such other party at its last known principal office, and the deposit of such notice in the United States mails, postage prepaid and so addressed, shall constitute service of notice hereunder.

12. In case Licensor shall grant to any other person any license under the aforesaid patents for the manufacture, sale or use of gypsum board made by use of the processes or embodying the claims or inventions claimed in any of said patents, or shall grant any right under any such license, upon terms more favorable than those granted hereunder to this Licensee, then it will grant to this Licensee a license on the same terms or extend to it the same right granted to any such other person.

13. The term "gypsum board" shall be understood to mean all board made of gypsum, by whatever name called, having the characteristics of gypsum plasterboard or gypsum wallboard, irrespective of the purpose for which the same may be sold or used, and shall include gypsum laths, laminated gypsum board, and all other gypsum boards. The term "laminated gypsum board", means a unit or assembly of units consisting of a gypsum board having attached to one or both faces thereof a layer or layers of gypsum board, insulation board, decorated paper simulating wood veneers or tile, or other material, but as used in the proviso to Paragraph 2 above shall not include gypsum board having a metallized surface.

14. If Licensor shall at any time during the existence of this agreement make or obtain any improvement for the formation of the bubbles or foam described in the process set forth in applications for United States Letters Patent as originally filed by Carlisle K. Roos, Serial No. 733197, 3477, and 142155, and by Erik C. Bayer, Serial No. 661723, or in Letters Patent Nos. 2017022, 2079338, and 2080009, or the method of its introduction into the core [fol. 746] of gypsum board, and which improvement is covered by the claims of the aforesaid applications and letters patent, and shall itself use the same in its own

manufacture, then so long as Licensee shall continue to pay the license fees or royalties hereinbefore stipulated, the right, license or privilege herein contained shall be extended to and include the use of said improvement in the manufacture by Licensee of gypsum board, subject to all of the terms and conditions herein contained, except only that Licensee shall not be required to pay any additional royalty or license fee therefor. It is further agreed that if a patent or patents shall be granted or issued for or upon said improvement, then all of the provisions of this agreement shall apply to the improvement set forth and claimed in any such patent or patents. Licensor will promptly notify Licensee of the general adoption by it of any such improvement in its own manufacture, together with such information as it may possess as to the use thereof in the manufacture of gypsum board.

15. The Licensor agrees at any time during the term hereof to extend to Licensee, upon its written request, an indivisible and non-exclusive license or privilege to use the process or processes set forth and claimed in said Letters Patent Nos. 2017022, 2079338, and 2080009, in the manufacture in Licensee's plants of any other gypsum product not specifically covered by this agreement, and in which product Licensor shall use the same in its own manufacture, and to sell the same, upon the payment to Licensor of —— per cent (——%) of Licensee's selling price of all of such other gypsum product or products (in the manufacture of which said process or processes are used), manufactured and sold by Licensee, upon the same terms as set forth herein and subject to all of the conditions hereof, in which event in the agreement for the same [fol. 747] there shall be substituted for the words "gypsum board" the name of such other product or products. An agreement containing all of said terms and conditions shall be reduced to writing and signed by both parties before the same shall become effective.

16. This Agreement shall be effective as of the —— day of ——, 1949.

In witness whereof the parties hereto have caused these presents to be signed in duplicate by their respective presidents, attested by their respective secretaries, and

their corporate seal to be hereunto affixed, the day and year first above written.

United States Gypsum Company, By —— ——, President.

Attest: —— ——, Secretary.

—— ——, President.

Attest: —— ——, Secretary.

[fol. 748] LICENSE AGREEMENT

This Agreement, made this —— day of ——, A. D. 1949, by and between United States Gypsum Company, an Illinois corporation, of Chicago, Illinois, hereinafter referred to as Licensor, and ——, a —— corporation, of ——, hereinafter referred to as Licensee,

Witnesseth:

That, whereas, Licensor is the owner of United States Letters Patent No. 1,938,354, relating to a perforated gypsum board particularly adapted for fire-resistant wall and ceiling construction and structures as covered by the claims of said patent; and

Whereas, Licensee desires an indivisible and non-exclusive license from Licensor herein, to manufacture, use and sell perforated gypsum board embodying the inventions and improvements set forth and claimed in said Letters Patent No. 1,938,354 upon the terms and conditions hereinafter set forth;

Now, therefore, in consideration of the mutual covenants and agreements hereinafter contained, the parties hereto agree as follows, to-wit:

1. Licensor agrees to and does hereby give and grant unto Licensee an indivisible and non-exclusive right, license and privilege of manufacturing, at the plants or factories now or hereafter owned or operated by Licensee or any subsidiary, associated or affiliated company, perforated gypsum board embodying the inventions and improvements set forth and claimed in said Letters Patent No. 1,938,354, and of selling and using in the United States of America, and the territories and possessions thereof, said perforated gypsum board manufactured by Licensee

[fol. 749] are aforesaid, for the full term of said Letters Patent, including any reissue thereof.

2. Licensee agrees to pay to Licensor for the right and privilege granted under Paragraph 1 above a license fee or royalty, for all perforated gypsum board, embodying any of the inventions and improvements set forth and claimed in said Letters Patent, which is manufactured and sold by Licensee during the term hereof, at the rate of —— cents (——¢) per thousand square feet of surface area, provided that no license fee or royalty shall be payable on perforated gypsum board exported by Licensee to any foreign country.

3. The license herein granted shall be personal to the Licensee and shall not be sold, assigned or transferred, either voluntarily or by operation of law, without the written consent of Licensor; *Provided, however,* that the license may be assigned by Licensee to any company acquiring all of Licensee's gypsum and gypsum board business, and assets pertaining thereto, or all of the capital stock of Licensee, on condition that Licensee shall first obtain, and deliver to Licensor, such assignee's written agreement to assume all of the obligations of Licensee hereunder and agreeing to be bound by all of the terms and conditions hereof.

4. Licensee agrees to keep separate, full and accurate books of account and records showing the exact quantity of perforated gypsum board manufactured and sold by it under the right, license and privilege herein granted, and agrees that on or before the 20th day of each calendar month it will deliver to Licensor at its office in Chicago, Illinois, true written returns, verified under oath by an officer or other authorized agent of Licensee setting forth the quantity of all such perforated gypsum board manufactured by it, and sold during the preceding calendar month. Licensee also agrees to pay to Licensor at its [fol. 750] said office on or before the 20th day of each calendar month the hereinbefore stipulated royalties or license fees which may then be due under the terms of this agreement on account of all such perforated gypsum board manufactured by it, and sold during the preceding calendar month.

5. Licensor, or its duly authorized representative, shall have the right at all reasonable times to inspect the books of account and records of Licensee referred to in Paragraph 4 hereof, and to make copies thereof and memoranda therefrom, *provided, however,* that upon written request of Licensee, such examination shall be made by a certified public accountant agreed upon between the parties hereto, in which event the expense thereof shall be borne equally by the parties. If the parties fail to agree upon the certified public accountant to make such examination, then Licensor shall name three certified public accountants of good standing, not directly or indirectly employed by it or in any other manner connected with it, and if Licensee shall not accept any one of them, then Licensor shall have the right to make such examination itself.

6. Licensee agrees that all perforated gypsum board manufactured and sold by it under or embodying any of the claims of said Letters Patent shall be distinctly marked "Patent No. 1,938,354", and with the further words "Licensed under the above patent". Licensee further agrees to distinctly mark said perforated gypsum board with such other appropriate notice as Licensor shall specify from time to time.

7. In the event either party shall at any time neglect, fail or refuse to keep or perform any of the conditions or agreements to be kept or performed by it under the provisions hereof, then the other party may at its election serve upon the party in default written notice of intention to terminate this license and specifying the alleged default. If the party in default shall not cure the default [fol. 751] so specified within thirty (30) days thereafter, then the other party may, subject to the provisions of paragraph 8 below, cancel and terminate this agreement without any court action by serving upon the party in default written notice of its election so to do; provided, that neither party shall be relieved thereby from any liability accrued at the time of such termination.

8. If a party upon whom a default notice is served under Paragraph 7 above shall deny the specified defaults, in whole or in part, then the right of the other party to terminate this license by reason of the defaults alleged

shall be suspended, provided the party served shall (a) within the said thirty (30) day period provided in Paragraph 7 above cure any defaults which are not denied, and (b) submit to arbitration the question as to whether the specifically denied defaults in fact occurred. In the event the arbitrators find that one or more of the alleged defaults have occurred, then the party in default shall cure the same within thirty (30) days from the date of the finding of such arbitrators. If not cured within said period the party serving such default notice, in addition to and without limitation upon any other rights and remedies which it may have hereunder, may cancel and terminate this agreement without any court action by serving upon the party in default written notice of its election so to do; provided, that neither party shall be relieved thereby of any liability accrued at the time of such termination.

All arbitrations had under this Paragraph 8 shall be in accordance with the Rules then obtaining of the American Arbitration Association, excepting only that the time allowed for objecting to arbitrators, or indicating the order of preference for arbitrators, as submitted to the parties for such purpose by said Association or under its Rules, shall in no event be less than fifteen (15) days. The finding [fol. 752] or findings of the arbitrators shall be final and conclusive. In the event the arbitrators shall find any license fees or royalties, or other sums of money herein required to be paid by the Licensee to the Licensor, are due and owing, the arbitrators shall in their findings fix and determine the amount thereof, and Licensor shall have the right (but without being limited to such remedy) to have a summary judgment entered in its favor against Licensee for the amount so found to be due by the Arbitrators in any court of competent jurisdiction.

9. In the event the Licensee at any time be adjudicated a bankrupt, then the license hereunder shall immediately be and become cancelled and terminated, but the Licensor shall not thereby be prevented from collecting all license fees or royalties accrued hereunder at the time of such termination.

10. The waiver of any breach by either party shall not be interpreted as constituting a waiver of any other or

further breach or breaches. Either party may specifically enforce this contract, or any of the terms, conditions and covenants thereof, by injunction or in such other manner as may be permitted by law.

11. Any notice required or permitted to be served by either party upon the other under the terms hereof, may be served by mailing the same to the other party, postage prepaid and registered, addressed to such other party at its last known principal office, and the deposit of such notice in the United States mails, postage prepaid and so addressed, shall constitute service of notice hereunder.

12. In case Licensor shall grant to any other person any license under the aforesaid Letters Patent for the manufacture, sale or use of perforated gypsum board embodying the claims or inventions claimed in said patent, or shall grant any right under any such license, upon terms more favorable than those granted hereunder to this Licensee, then it will grant to this Licensee a license on the same [fol. 753] terms or extend to it the same right granted to any such other person.

13. Nothing herein contained shall be construed as granting any right, license or privilege under any Letters Patent other than Letters Patent No. 1,938,354, and it is understood that the royalties provided herein are in addition to the royalties or license fees provided under any other license agreement which may now or hereafter exist between the parties.

14. This agreement shall be effective as of the —— day of ——, 1949.

In witness whereof the parties hereto have caused these presents to be signed in duplicate by their respective presidents, attested by their respective secretaries, and their corporate seals to be hereunto affixed, the day and year first above written.

United States Gypsum Company, By —— ——, President.

Attest: —— ——, Secretary.

—— ——, President.

Attest: —— ——, Secretary.

[fol. 754] LICENSE AGREEMENT

This Agreement made this —— day of ——, A. D. 1949, by and between United States Gypsum Company, an Illinois corporation, of Chicago, Illinois, hereinafter referred to as Licensor, and ——, a —— corporation, of ——, hereinafter referred to as Licensee,

Witnesseth:

That in consideration of the mutual covenants and agreements herein contained, the parties hereto agree as follows, to-wit:

1. Licensor has agreed to and does hereby give and grant unto Licensee an indivisible and non-exclusive right, license, and privilege to make and use the machines and inventions set forth and claimed in United States Letters Patent No. 1946056 dated February 6, 1934, and expiring February 6, 1951, at the plants or factories now owned or operated by Licensee, or at any other plant or factory hereafter owned or operated and controlled by Licensee or any subsidiary, associated or affiliated company of Licensee, for the full term of said letters patent, including any reissue therefor.

2. Licensee agrees to pay to Licensor for the right and privilege granted under Paragraph 1 above a licensee fee or royalty of —— cents (——¢) per one thousand (1,000) square feet of gypsum board bundled with a machine constructed according to any one or more of the claims set forth or claimed in said letters patent, and sold by Licensee during the term hereof.

3. The license herein granted shall be personal to the Licensee and shall not be sold, assigned, or transferred, either voluntarily or by operation of law, without the writ-
[fol. 755] ten consent of Licensor, *provided, however*, that this license may be assigned by Licensee to any company acquiring all of Licensee's gypsum and gypsum board business, and assets pertaining thereto, or all of the capital stock of Licensee, on condition that Licensee shall first obtain, and deliver to Licensor, such assignee's written agreement to assume all of the obligations of Licensee here-

under, and agreeing to be bound by all of the terms and conditions hereof.

4. Licensee agrees to keep separate, full, and accurate books of account and records showing the exact quantity of all gypsum board bundled with a machine constructed according to any one or more of the claims set forth and claimed in said letters patent, and sold by Licensee, and agrees that on or before the 20th day of each calendar month it will deliver to Licensor at its office in Chicago, Illinois, true written returns verified under oath by an officer or other authorized agent of Licensee, setting forth the quantity of all such gypsum board bundled by it with a machine constructed according to any one or more of the claims set forth in said letters patent, and sold during the preceding calendar month. Licensee also agrees to pay to Licensor at its said office, on or before the 20th day of each calendar month, the hereinbefore stipulated royalty or license fee which may then be due under the terms of this agreement on account of said gypsum board bundled by it as aforesaid, and sold during the preceding calendar month.

5. Licensor, or its duly authorized representative, shall have the right at all reasonable times to inspect the books of account and records of Licensee referred to in Paragraph 4 hereof, and to make copies thereof and memoranda therefrom, provided that upon written request of Licensee such examination shall be made by a certified public accountant satisfactory to Licensor, in which event the expense of such examination shall be borne equally by [fol. 756] the parties.

6. Licensee agrees that all bundles of gypsum board bundled by it with a machine constructed according to any one or more of the claims set forth and claimed in said letters patent, shall be distinctly marked "Machine used in making this bundle covered by Patent No. 1,946,-056", and Licensee further agrees to distinctly mark said bundles with such other appropriate notice as Licensor shall specify from time to time.

7. In the event either party shall at any time neglect, fail or refuse to keep or perform any of the conditions or agreements herein agreed to be kept or performed by it,

then the other party may at its election serve upon the party in default written notice of intention to terminate this license, which notice shall specify the alleged default. If the party in default shall not cure the default so specified within thirty (30) days after such notice, then the other party may, subject to the provisions of Paragraph 8 below, cancel and terminate this agreement, without any court action, by serving upon the party in default written notice of its election so to do; provided, that neither party shall be relieved thereby from any liability accrued at the time of such termination.

8. If a party upon whom a default notice is served under Paragraph 7 above shall deny the specified defaults, in whole or in part, then the right of the other party to terminate this license by reason of the defaults alleged shall be suspended, provided the party served shall (a) within the said thirty (30) day period provided in Paragraph 7 above cure any defaults which are not denied, and (b) submit to arbitration the question as to whether the specifically denied defaults in fact occurred. In the event the arbitrators find that one or more of the alleged defaults have occurred, then the party in default shall cure the same within thirty (30) days from the date of the finding of such [fol. 757] arbitrators. If not cured within said period the party serving such default notice, in addition to and without limitation upon any other rights and remedies which it may have hereunder, may cancel and terminate this agreement, without any court action, by serving upon the party in default written notice of its election so to do; provided, that neither party shall be relieved thereby of any liability accrued at the time of such termination.

All arbitrations had under this Paragraph 8 shall be in accordance with the Rules then obtaining of the American Arbitration Association, excepting only that the time allowed for objecting to arbitrators or indicating the order of preference for arbitrators, as submitted to the parties for such purpose by said Association or under its Rules, shall in no event be less than fifteen (15) days. The finding or findings of the arbitrators shall be final and conclusive. In the event the arbitrators shall find that any license fees or royalties, or other sums of money herein

required to be paid by the Licensee to the Licensor, are due and owing, the arbitrators shall in their findings fix and determine the amount thereof, and Licensor shall have the right (but without being limited to such remedy) to have a summary judgment entered in its favor against Licensee for the amount so found to be due by the arbitrators in any court of competent jurisdiction.

9. In the event the Licensee shall at any time be adjudicated a bankrupt, then the license hereunder shall immediately be and become cancelled and terminated, but the Licensor shall not thereby be prevented from collecting all license fees or royalties accrued hereunder at the time of such termination.

10. Nothing herein contained shall be construed as constituting a license for the manufacture, use or sale of gypsum board under any other patents or patent rights of [fol. 758] Licensor, or as extending the term of any such license heretofore or hereafter granted by any other agreement between the parties hereto, and the royalty provided herein is in addition to any royalties or license fees provided in any such other agreement.

11. The waiver of any breach by either party shall not be interpreted as constituting a waiver of any other or further breach or breaches. Either party may specifically enforce this contract, or any of the terms, conditions and covenants thereof, by injunction or in such other manner as may be permitted by law.

12. Any notice required or permitted to be served by either party upon the other under the terms hereof, may be served by mailing the same to the other party, postage prepaid and registered, addressed to such party at its last known principal office, and the deposit of such notice in the United States mails, postage prepaid and so addressed, shall constitute service of notice hereunder.

13. In case Licensor shall grant to any other person a license under the aforesaid patent upon terms more favorable than those granted hereunder to this Licensee, then it will grant to the Licensee herein a license on the same terms granted to any other such person.

14. The term "gypsum board" shall be understood to mean all board made of gypsum, by whatever name called,

having the characteristics of gypsum plasterboard or gypsum wallboard, irrespective of the purpose for which the same may be sold or used, and shall include gypsum laths and all other gypsum boards.

15. This agreement shall be effective as of the —— day of ——, 1949.

In witness whereof the parties hereto have caused these presents to be signed by their respective presidents, attested by their respective secretaries, and their corporate [fol. 759] seals to be hereunto affixed in duplicate the day and year first above written.

United States Gypsum Company, By —— ——, President.

Attest: —— ——, Secretary.

By —— ——, President.

Attest: —— ——, Secretary.

[fol. 760] LICENSE AGREEMENT

This Agreement, made this —— day of ——, A. D. 1949, by and between United States Gypsum Company, an Illinois corporation, of Chicago, Illinois, hereinafter referred to as Licensor, and ——, a —— corporation, of ——, hereinafter referred to as Licensee,

Witnesseth:

That, whereas, Licensor is the owner of United States Letters Patent No. 1,914,345 relating to wall construction (hereinafter referred to as the Roos Patent), and is also the owner of certain patent rights set forth in Schedule A hereunto annexed, relating to building structures or elements for said structures; and

Whereas, Licensee desires an indivisible and non-exclusive license from Licensor herein, to manufacture, use and sell gypsum board under said Roos Patent and under said patent rights set forth in Schedule A hereof, and Licensor has agreed to grant such license upon the terms and conditions, but subject to the limitations hereinafter stated;

Now, therefore, in consideration of the mutual covenants and agreements hereinafter contained, the parties hereto agree as follows, to-wit:

1. Licensor agrees to and does hereby give and grant unto Licensee the indivisible and non-exclusive right, license, and privilege to make, use, and sell gypsum board having a metallized surface, embodying the inventions disclosed and claimed in said Roos Patent and in the patents set forth in Schedule A, or in any of them, Provided, that the right, license, and privilege herein and [fol. 761] hereby granted is specifically limited to the gypsum board and building structures incorporating the same as set forth in Schedule A, and does not extend to any other product or structure.

2. Licensee agrees to pay to Licensor for the right and privilege granted under Paragraph 1 above, a royalty for all gypsum board having a metallized surface manufactured and sold by Licensee and which is covered by the claims of said Roos Patent or the patents set forth in Schedule A, or which is to be used in making structures covered by said patent or patent rights, at the rate of —— cents (——¢) per thousand square feet of surface area where only one face is metallized, and at the rate of —— cents (——¢) per thousand square feet where both faces are metallized, of any product covered by the aforesaid patent or any of said patent rights.

3. The license herein granted is personal to the Licensee and shall not be sold, assigned or transferred, either voluntarily or by operation of law, without the written consent of Licensor; Provided, however, that the license may be assigned by Licensee to any company acquiring all of Licensee's gypsum and gypsum board business, and assets pertaining thereto, on condition that Licensee shall first obtain, and deliver to Licensor, such assignee's written agreement to assume all of the obligations of Licensee hereunder and agreeing to be bound by all of the terms and conditions hereof.

4. In case Licensor shall grant to any other person any license under the aforesaid patent or patent rights for the manufacture, sale or use of gypsum board having a metallized surface and embodying the claims or inven-

tions set forth and claimed therein, upon terms more favorable than those granted hereunder to Licensee, then Licensor shall grant to Licensee a license upon the same terms, or will extend to Licensee the same right granted [fol. 762] to such other licensee.

5. Licensee agrees to keep true and accurate books of account showing the quantity of all gypsum board having one or more metallized surfaces, manufactured and sold by it under the rights, licenses, and privileges herein granted. Such books and records shall at all times during business hours be open to the inspection of Licensor or its duly authorized representative, and Licensor shall have the right to make copies thereof and memoranda therefrom, provided that upon written request of Licensee such examination shall be made by a certified public accountant satisfactory to Licensor, in which event the expense thereof shall be borne equally by the parties.

6. Licensee agrees that on or before the 15th day of each calendar month it will deliver to Licensor at its office in Chicago, Illinois, a written report, verified by an officer or other authorized agent of Licensee, showing the quantity of all such gypsum board manufactured by it (a) having one metallized surface, and (b) having two metallized surfaces, and sold during the preceding calendar month. Licensee also agrees to pay to Licensor at its said office on or before the 15th day of each calendar month the hereinbefore stipulated royalty which may then be due under the terms of this agreement on account of all such gypsum board so sold by Licensee during the preceding calendar month. For the purposes of this agreement a sale shall be considered to have been made not later than the date on which the goods are shipped by Licensee, without regard to passing of title or whether the goods are shipped on consignment, or otherwise.

[fol. 763] 7. Licensee agrees that all gypsum board having one or more metallized surfaces sold by it hereunder shall be distinctly marked with the word "Patent" followed by the number of any of the aforesaid patents, the claims of which are embodied in said gypsum board, and with the words "Wall structures having hollow spaces faced by said metallized surfaces, also covered by Patent

No. 1,914,345"; and also with the words "Licensed under the above patents". Licensee further agrees to distinctly mark said gypsum board with such other appropriate notice as Licensor shall specify from time to time.

8. In the event Licensee shall at any time neglect, fail or refuse to keep or perform any of the conditions or agreements to be kept or performed by it under the provisions hereof, then Licensor may at its election serve upon Licensee written notice specifying the alleged default and stating, if Licensor so desires, its intention to terminate this license. If Licensee shall not cure the default so specified within thirty (30) days thereafter, then Licensor may, subject to the provisions of Paragraph 9 below, maintain any appropriate action hereunder, at law or in equity, for collection of royalties, or for damages, or for any other appropriate remedy, or Licensor may, if such intention was stated in the notice of default, cancel and terminate this agreement without any court action, by serving upon Licensee written notice of its election so to do; provided, that Licensee shall not be relieved thereby from any liability accrued at the time of such termination.

9. If Licensee shall deny, in whole or in part, the defaults specified in a notice served by Licensor under Paragraph 8 above, then Licensor's right to proceed as pro- [fol. 764] vided in Paragraph 8 above shall be suspended, provided Licensee shall (a) within the said thirty (30) day period provided in Paragraph 8 above cure any defaults which are not denied, and (b) submit to arbitration the question as to whether the specifically denied defaults in fact occurred. In the event the arbitrators find that one or more of the alleged defaults have occurred, then Licensee shall cure the same within thirty (30) days from the date of the finding of such arbitrators. If not cured within said period then Licensor may proceed in such manner as it may elect as provided in Paragraph 8 above.

All arbitrations had under this Paragraph 9 shall be in accordance with the Rules then obtaining of the American Arbitration Association, excepting only that the time allowed for objecting to arbitrators, or the order of preference for arbitrators, as submitted to the parties for such purpose by said Association or under its Rules, shall

in no event be less than fifteen (15) days. The finding or findings of the arbitrators shall be final and conclusive. In the event the arbitrators shall find any royalties, or other sums of money herein required to be paid by the Licensee to the Licensor, are due and owing, the arbitrators shall in their findings fix and determine the amount thereof, and Licensor shall have the right (but without being limited to such remedy) to have a summary judgment entered in its favor against Licensee for the amount so found to be due by the arbitrators in any court of competent jurisdiction.

10. In the event (a) that Licensee shall be adjudicated a bankrupt, or (b) a receiver shall be appointed for Licensee, whose appointment shall not be vacated within sixty (60) [fol. 765] days thereafter, then the rights, licenses, and privileges herein granted to Licensee shall forthwith cease and determine, without further action on the part of the Licensor, provided that such termination shall not relieve Licensee of any liability then existing.

11. The waiver by Licensor of any breach on the part of Licensee shall not be interpreted as constituting a waiver of any further or other breach or breaches.

12. Any notice required or permitted to be served by either party upon the other under the terms hereof, may be served by mailing the same to the other party, postage prepaid and registered, addressed to such party at its last known principal office, and the deposit of such notice in the United States mails, registered, postage prepaid and so addressed, shall constitute service of notice hereunder.

13. The term "gypsum board" shall be understood to mean all board made of gypsum, by whatever name called, having the characteristics of gypsum plasterboard or gypsum wallboard, irrespective of the purpose for which the same may be sold or used, and shall include gypsum laths, laminated gypsum board, and all other gypsum boards.

14. Except as otherwise provided herein, this agreement shall remain in force for the full term of the last to expire of the Roos Patent and the patent rights set forth in Schedule A, and shall be binding upon and inure to the benefit of the parties hereto and their successors and

assigns; provided that nothing in this paragraph contained shall be construed to permit any assignment hereof except as herein otherwise specifically provided. Nothing herein contained shall be construed to relieve Licensee from the payment of royalties under license agreement of even [fol. 766] date herewith under Letters Patent Nos. 2017022, 2079338, 2080009, and 1938354, it being understood that the royalties provided herein are in addition to the royalties or license fees provided in such other agreement. In the event the exclusive right and license of Licensor as set forth in Schedule A hereof shall terminate for any reason whatever, whether on account of Licensor's default or otherwise, and such termination shall result in the termination of any of the rights, licenses and privileges herein granted to the Licensee, then this agreement shall immediately terminate without further act on the part of either of the parties hereto (subject however to revival and continuation as hereinafter provided), and without liability of any kind by Licensor to Licensee on account thereof, provided that Licensee shall not thereby be released from any then existing liability to Licensor. Licensor agrees that if its said exclusive right and license shall be so terminated, it will promptly notify Licensee thereof and, if Licensee's rights shall have terminated as aforesaid, then upon the written request of Licensee made to Licensor at any time within sixty (60) days after the giving of such notice, this license agreement shall continue in effect as to said Roos Patent, upon and subject to all the terms, provisions, and conditions hereof to the extent the same are applicable; provided however, that in such event it is expressly understood and agreed that Licensor shall not be liable to Licensee in any way, directly or indirectly, for or by reason of any infringement or claimed infringement of the patents listed in Schedule A hereof.

[fol. 767] 15. Licensor hereby represents and warrants that it has the right to grant the license herein granted.

16. This agreement shall be effective as of the —— day of ——, 1949.

In witness whereof, the parties hereto have caused these presents to be signed by their respective Presidents,

attested by their respective Secretaries, and their corporate seals to be hereunto affixed, in duplicate, the day and year first above written.

United States Gypsum Company, By —— ——, President.

Attest: —— ——, Secretary.

By —— ——, President.

Attest: —— ——, Secretary.

[fol. 768] Schedule A

Licensor has the exclusive right and license to make, use and sell building structures or elements for building structures where insulation is obtained by the use of gypsum board having a metallized surface under the following patents, known as the Alfol patents:

Inventor	*Patent No.*	*Issue Date*
Schmidt	1,890,418	December 6, 1932
Dykerhoff	1,934,174	November 7, 1933
Schmidt	2,015,817	October 1, 1935

together with any divisions, continuations, renewals or reissues thereof, but it is understood that the term "building structures" is limited to the walls, floors, roofs and ceilings of buildings and does not include pipes or ducts, or other heating apparatus installed in the building, or refrigerating or cooling apparatus or structures whether built into the building or not. Licensor has no right or license under the said patents to use metal foil for insulation except where such foil is applied to a non-metallic member as a facing therefor.

[fol. 769] [File endorsement omitted]

IN THE DISTRICT COURT OF THE UNITED STATES
FOR THE DISTRICT OF COLUMBIA

[Title omitted]

PETITION FOR APPEAL BY U.S. GYPSUM CO., ET AL.—
Filed January 6, 1950

Considering themselves aggrieved by the final decree and judgment of this court entered on November 7, 1949, United States Gypsum Company, Sewell L. Avery and Oliver M. Knode, defendants herein, do hereby pray that an appeal be allowed to the Supreme Court of the United States from said final decree and judgment and from each and every part thereof; that citation be issued in accordance with law; that an order be made with respect to the appeal bond to be given by said defendants, and that the material parts of the record, proceedings and papers upon which said final judgment and decree was based duly authenticated be sent to the Supreme Court of the United States in accordance with the rules in such case made and provided.

Respectfully submitted,

Albert R. Connelly, Cranston Spray, Hugh Lynch, Jr., Attorneys for defendants United States Gypsum Company, Sewell L. Avery and Oliver M. Knode.

[fol. 770] IN THE DISTRICT COURT OF THE UNITED STATES
FOR THE DISTRICT OF COLUMBIA

ORDER ALLOWING APPEAL OF U.S. GYPSUM CO., ET AL.,
FROM JUDGMENT AND DECREE OF NOVEMBER 7, 1949—
January 6, 1950

United States Gypsum Company, Sewell L. Avery and Oliver M. Knode having made and filed their petition praying for an appeal to the Supreme Court of the United States from the final judgment and decree of this court in this cause entered on November 7, 1949, and from each

and every part thereof, and having presented their assignment of errors and prayer for reversal and their statement as to the jurisdiction of the Supreme Court of the United States on appeal pursuant to the statutes and rules of the Supreme Court of the United States in such cases made and provided,

Now, therefore, it is hereby ordered that said appeal be and the same is hereby allowed as prayed for.

It is further ordered that the amount of the appeal bond be and the same is hereby fixed in the sum of $250.00, with good and sufficient surety, and shall be conditioned as may be required by law.

[fol. 771] It is further ordered that citation shall issue in accordance with law.

Harold M. Stephens, Finis J. Garrett, Joseph R. Jackson, Designated as Justices of the District Court of the United States for the District of Columbia.

Dated this 6th day of January, 1950.

[fol. 772] [File endorsement omitted]

IN THE DISTRICT COURT OF THE UNITED STATES
FOR THE DISTRICT OF COLUMBIA

[Title omitted]

ASSIGNMENT OF ERRORS BY U.S. GYPSUM CO., ET AL., AND PRAYER FOR REVERSAL—Filed January 6, 1950

United States Gypsum Company, Sewell L. Avery and Oliver M. Knode, defendants in the above entitled cause, complain that the United States District Court for the District of Columbia, committed manifest error to the prejudice of said defendants in the above entitled cause and assign the following errors in the record and proceedings herein upon which they will rely on their appeal to the Supreme Court of the United States (each numbered paragraph being a separate assignment of error):

1. The court erred in determining that there was not any genuine issue between the plaintiff and the defendants as to any material fact.

2. The court erred in sustaining plaintiff's motion for summary judgment.

3. The court erred in entering herein its final judgment and decree of November 7, 1949.

[fol. 773] 4. The court erred in determining that its said judgment and decree of November 7, 1949 is "in conformity with the decision of the Supreme Court" heretofore rendered herein (333 U. S. 364).

5. The court erred in determining that its said judgment and decree of November 7, 1949 is "in obedience to" the mandate of the Supreme Court dated April 9, 1948.

6. The court erred in holding by its said judgment and decree of November 7, 1949 that the patent licenses enumerated in Article II of said judgment and decree of November 7, 1949 are unlawful under the antitrust laws of the United States and illegal, null and void.

7. The court erred in holding by its said judgment and decree of November 7, 1949 that the defendant companies had acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board, or had monopolized trade and commerce in the gypsum board industry in violation of sections 1 and 2 of the Sherman Antitrust Act.

8. The court erred by its said judgment and decree of November 7, 1949 in enjoining and restraining each of the defendant companies, and each of their respective officers, directors, agents, employees, representatives, subsidiaries, and any person acting or claiming to act under, through, or for them, or any of them, from (1) the further performance or enforcement of any of the provisions of said patent licenses, including any price bulletin issued [fol. 774] thereunder, or (2) entering into or performing any agreement or understanding among the defendants, or any of them, for the purpose of or with the effect of continuing, reviving or reinstating any monopolistic practice, or (3) entering into or performing any agreement or understanding among the defendants, or any of them, in restraint of trade and commerce in gypsum board among the several states in the eastern territory of the United States by license agreements to fix, maintain or stabilize

prices of gypsum board or the terms and conditions of sale thereof.

9. The court erred by its said judgment and decree of November 7, 1949 in requiring United States Gypsum Company to grant to each applicant therefor, within ninety days after the effective date of said judgment and decree a nonexclusive or other license (whether in the form approved by the court or otherwise) to make, use, or vend under any, some, or all patents or patent applications now owned or controlled by said United States Gypsum Company relating to gypsum board or in providing that such license agreement fix a royalty not to exceed the royalty on the same article or process fixed in the license agreements set out in Article II of said judgment and decree.

10. The court erred by its said judgment and decree of November 7, 1949 in enjoining and restraining said United States Gypsum Company from making any sale or other disposition of any of said patents or patent applications which would deprive it of the power or authority to grant [fol. 775] such licenses unless in any sale, transfer or assignment it should be required that the purchaser, transferee, or assignee shall observe the provisions of said Article VI of said judgment and decree of November 7, 1949.

11. The court erred in directing in Article IX of said judgment and decree of November 7, 1949 that jurisdiction of the cause and of the parties be retained by the court for the purpose of enabling any of the parties to said judgment and decree, or any other person, firm, or corporation that may thereafter become bound thereby, in whole or in part, to apply to the court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of said judgment and decree, or (2) for the enforcement of compliance therewith.

12. The court erred in entering its said judgment and decree of November 7, 1949 against the defendant companies, or any of them, for any part of the costs to be taxed in said proceeding.

13. The court erred in denying to defendants, and to each of them, the right to introduce evidence on the issues

raised by the pleadings herein following the remand of the cause.

14. The court erred in that, by denying to defendants, and to each of them, the right to introduce evidence on the issues herein, the court deprived the defendants of the due process of law in violation of the Constitution of the United States, and particularly Article V thereof. [fol. 776] 15. The court erred by denying to defendants, and to each of them, the right to introduce evidence on the issues herein, in violation of the provisions of Rule 41(b) of the Federal Rules of Civil Procedure.

16. The court erred in its construction of the opinion of the Supreme Court herein (333 U. S. 364), and in its construction of the mandate of the Supreme Court herein dated April 9, 1948, in so far as the court held that the granting of plaintiff's motion for summary judgment was required by said opinion and mandate.

Wherefore, said United States Gypsum Company, Sewell L. Avery and Oliver M. Knode pray that said final judgment and decree of November 7, 1949 may be reversed in all respects, and that the case be remanded to the District Court with specific direction that the court proceed with the hearing of the issues in the case and the introduction of evidence on behalf of the defendants and of the plaintiff, and that such other and further relief may be granted as the court may deem just and proper.

Respectfully submitted,

Albert R. Connelly, Cranston Spray, Hugh Lynch, Jr., Attorneys for defendants United States Gypsum Company, Sewell L. Avery and Oliver M. Knode.

[fol. 777] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

[Title omitted]

ORDER ALLOWING APPEAL OF UNITED STATES—

January 6, 1950

In the above-entitled cause the United States of America plaintiff, having made and filed its petition praying an appeal to the Supreme Court of the United States from the final judgment and decree of this Court in this cause entered on the 7th day of November, 1949, and having also made and filed its Assignment of Errors and Prayer for Reversal, and Statement of Jurisdiction, and having in all respects conformed to the statutes and rules in such cases made and provided.

It is therefore ordered and adjudged

That the appeal be and the same is hereby allowed as prayed for.

Harold M. Stephens, Finis J. Garrett, Joseph R. Jackson, Designated as Judges of the United States District Court for the District of Columbia.

This 6th day of January, 1950.

[fol. 778] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

[Title omitted]

ASSIGNMENT OF ERRORS BY UNITED STATES AND PRAYER FOR REVERSAL—Filed January 6, 1950

The United States of America, plaintiff in the above-entitled cause, in connection with its petition for appeal

to the Supreme Court of the United States, hereby assigns error to the record and proceedings and the entry of the final decree in the district court on November 7, 1949, in the above-entitled cause, and says that in the entry of the final decree the district court committed error to the prejudice of the plaintiff in the following particulars:

1. The court erred in failing to adjudicate that each individual defendant has violated Sections 1 and 2 of the Sherman Act, and in not subjecting each such defendant to the injunctive provisions of the judgment.

2. The court erred in failing to adjudicate that the defendants have conspired to restrain interstate commerce in gypsum products, in violation of Section 1 of the Sherman Act.

3. The court erred in limiting the prohibitions of Article V (3) of the judgment to restraints of trade involving only [fol. 779] gypsum board and in limiting these prohibitions to restraints of trade effected only by "license agreements."

4. The court erred in not enjoining any two or more defendants from agreeing, combining or conspiring with each other to eliminate price competition in the sale of gypsum board or gypsum products, to stabilize the prices thereof, to suppress any class of distributor thereof, or to suppress the production of unpatented gypsum products.

5. The court erred in limiting the requirement imposed upon United States Gypsum Company by Article VI, paragraph 1, of its judgment to 90 days after the effective date thereof, and in limiting such requirement to the nine patents referred to in the forms of agreement which the court approved and ordered filed herein (Decree, Article VIII).

6. The court erred in not providing that each license granted pursuant to the requirements of Article VI, paragraph 1, of the judgment shall be at a reasonable royalty, to be determined, in the event of disagreement, by the court or by a neutral third party.

7. The court erred in providing (Decree, Article VIII) that tender by United States Gypsum Company of a license containing the terms and conditions set forth in the

applicable form of agreement which the court "approved" and "ordered filed herein" shall constitute compliance by United States Gypsum Company with the provisions of Article VI of the judgment.

8. The court erred in providing in the first of the license forms which it approved that the licensee shall make a monthly report to United States Gypsum Company of the "quantity" of all gypsum board manufactured by it under the licensed patents, together with the "selling price" thereof, and that United States Gypsum Company may [fol. 780] inspect the books and records of the licensee and make copies thereof (subject to the proviso that, upon the licensees' request, such examination shall be made by a certified public accountant).

9. The court erred in not entering judgment against the defendants for the full taxable costs of the proceeding.

10. The court erred in not including in its judgment provisions corresponding to those of Sections V, VI, IX and XI of the decree proposed by the plaintiff.

11. The court, if it concluded that controverted questions of fact prevented entry of judgment on the whole case or for all the relief requested, erred in not entering an order specifying the facts which it ascertained to be in dispute and directing the trial to proceed as to those facts.

Wherefore, plaintiff prays that the final decree of the district court may be reversed to the extent that it is inconsistent with the errors herein assigned by the plaintiff, and for such other and fit relief as the court may deem just and proper.

Herbert A. Bergson, Assistant Attorney General;
Edward Knuff, Special Assistant to the Attorney General.

January 6, 1950.

[fol. 781] IN UNITED STATES DISTRICT COURT

MANDATE OF SUPREME COURT OF THE UNITED STATES ENTERED ON JULY 18, 1950 AND FILED IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA ON JULY 19, 1950

UNITED STATES OF AMERICA, ss:

The President of the United States of America,

To the Honorable the Judges of the United States District Court for the District of Columbia, —— ——

Greeting:

Whereas, lately in the United States District Court for the —— District of Columbia, —— before you, or some of you, in a cause between The United States of America, Plaintiff, and United States Gypsum Company et al., Defendants, Civil Action No. 8017, wherein the decree of the said District Court on the remand from the Supreme Court of the United States was duly entered in said cause on the [fol. 782] 7th day of November, A. D. 1949; as by the inspection of the transcript of the record —— —— of the said District —— Court, which was brought into the Supreme Court of the United States by virtue of an appeal sued out by United States Gypsum Company, Sewell L. Avery, et al., —— agreeably to the act of Congress, —— —— in such case made and provided, fully and at large appears. [fol. 783] And whereas, in the present term of October, in the year of our Lord one thousand nine hundred and forty-nine ——, the said cause came on to be heard before the said Supreme Court, on the said transcript of record, and was duly submitted:

On consideration whereof, It is now here ordered —— —— by this Court that the appeal of United States Gypsum Company et al., in this cause be, and the same is hereby, dismissed.

May 29, 1950.

[fol. 784] You, therefore are hereby commanded that such proceedings be had in said cause, —— —— as ac-

cording to right and justice, and the laws of the United States, ought to be had, the said appeal —— notwithstanding.

Witness, the Honorable Fred M. Vinson, Chief Justice of the United States, the eighteenth —— day of July ——, in the year of our Lord one thousand nine hundred and fifty.

Charles Elmore Cropley, Clerk of the Supreme Court of the United States.

[fol. 785] IN UNITED STATES DISTRICT COURT

MANDATE OF THE SUPREME COURT OF THE UNITED STATES ENTERED JANUARY 3, 1951 AND FILED IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA ON JANUARY 4, 1951

UNITED STATES OF AMERICA, ss:

The President of the United States of America,

To the Honorable the Judges of the United States District Court for the District of Columbia.
Greeting:

Whereas, lately in the United States District Court for the —— District of Columbia, —— —— before you, or some of you, in a cause between The United States of America, Plaintiff, and United States Gypsum Company; National Gypsum Company; Certain-Teed Products Corporation et al., defendants, Civil Action No. 8017, wherein the decree of the said District Court on the remand from the Supreme Court of the United States was duly entered in said cause on the 7th day of November, A. D. 1949, which decree is fully set out in the record of said cause in the office of the Clerk of said District Court and is incorporated herein by ref-
[fol. 786] erence thereto; as by the inspection of the transcript of the record —— —— of the said District —— Court, which was brought into the Supreme Court of the

United States by virtue of an appeal —— —— allowed on the petition of the United States of America, agreeably to the act of Congress, —— —— in such case made and provided, fully and at large appears.

[fol. 787] And whereas, in the present term of October, in the year of our Lord one thousand nine hundred and fifty ——, the said cause came on to be heard before the said Supreme Court, on the said transcript of record, and was argued by counsel:

On consideration whereof, It is ordered, —— adjudged, and decreed —— by this Court that the decree —— of the said District —— Court, in this cause be, and the same is hereby, reversed.

It is further ordered that this cause, be, and it is hereby, remanded to the District Court for further proceedings in conformity with the opinion of this Court.

It is further ordered that the injunction entered on May 29, 1950, pending further order of this Court, be, and it is continued in effect until the entry of a final decree in the District Court.

November 27, 1950.

[fol. 787a] You, therefore, are hereby commanded that such further proceedings be had in said cause, in conformity with the opinion and decree of this Court, —— as according to right and justice, and the laws of the United States, ought to be had, the said appeal —— —— notwithstanding.

Witness, the Honorable Fred M. Vinson, Chief Justice of the United States, the third —— day of January ——, in the year of our Lord one thousand nine hundred and fifty-one.

Charles Elmore Cropley, Clerk of the Supreme Court of the United States, By Hugh W. Barr, Deputy.

[fol. 788] IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

[Title omitted]

PLAINTIFF'S PROPOSED FINAL JUDGMENT—Filed March 6, 1951

Articles I to X, inclusive, of the judgment of this Court dated November 7, 1949, are hereby set aside and vacated, and in lieu thereof

It is ordered, adjudged and decreed:

Article I

This Court has jurisdiction of the subject matter hereof and of the parties hereto. The complaint states a cause of action against defendants under the Act of Congress of July 2, 1890, entitled "An Act to Protect Trade and Commerce Against Unlawful Restraints and Monopolies," commonly known as the Sherman Antitrust Act, and acts amendatory thereof and supplemental thereto.

[fol. 789]

Article II

For the purposes of this judgment:

1. "Defendant companies shall mean all of the corporate defendants and Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company.
2. "Patents" shall mean United States Letters Patent and applications for United States Letters Patent relating to gypsum board, its processes, methods of manufacture, or use, and continuations in whole or in part, renewals, reissues, divisions, and extensions of any such patent or patent application.
3. "Gypsum board" shall mean plasterboard, lath, wallboard, special surfaced board, sheathing, liner board (including any such product which is perforated or metallized) made from gypsum.
4. "Gypsum products" shall mean gypsum board as defined in the preceding paragraph, and plaster, block, tile and Keene's cement made from gypsum.

5. As used in Article IV, "license agreements" shall mean the patent license agreements which were in effect between defendant United States Gypsum Company and each of the other defendant companies at the time the complaint herein was filed and described in said complaint as follows:

Agreement dated October 15, 1929, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee;

Agreement dated October 17, 1929, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee;

Agreement dated October 18, 1929, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee;

Agreement dated November 5, 1929, between United States Gypsum Company, as licensor, and Universal Gypsum and Lime Company (National Gypsum Company, as Assignee), as licensee;

Agreement dated November 25, 1929, between United States Gypsum Company, as licensor, and American Gypsum Company (The Celotex Corporation, as Assignee), as licensee;

[fol. 790] Agreement dated April 23, 1930, between United States Gypsum Company as licensor, and Kelley Plasterboard Company (Newark Plaster Co. as Assignee), licensee;

Agreement dated February 10, 1937, between United States Gypsum Company, as licensor, and Texas Cement Plaster Company, as licensee;

Agreement dated October 5, 1934, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee (Metallized board);

Agreement dated October 12, 1934, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Company, as Assignee), as licensee (Metallized board);

Agreement dated November 2, 1934, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee (Metallized board);

Agreement dated December 4, 1934, between United States Gypsum Company, as licensor, and American Gypsum Company (The Celotex Corporation, as Assignee), as licensee (Metallized board);

Agreement dated August 14, 1935, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Metallized board);

Agreement dated June 8, 1938, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee (Perforated lath);

Agreement dated September 16, 1938, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee (Perforated lath);

Agreement dated February 2, 1937, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Perforated lath);

Agreement dated September 16, 1938, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Perforated lath);

Agreement dated June 23, 1937, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Company, as Assignee), as licensee (Perforated lath);

Agreement dated January 3, 1939, between United States Gypsum Company, as licensor, and Newark Plaster Company, as licensee (Perforated lath), and any supplement or amendment to any of said patent license agreements.

Article III

The defendant companies have acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board and have monopo- [fol. 791] lized trade and commerce in the gypsum board industry in violation of Sections 1 and 2 of the Sherman Antitrust Act.

Article IV

Each of the license agreements listed in Article II hereof is adjudged unlawful under the antitrust laws of the United States and illegal, null and void.

Article V

The defendant companies, and their respective officers, directors, agents, employees, representatives, and subsidiaries, be and each of them hereby is enjoined from entering into or performing any agreement or understanding to fix, maintain, stabilize, or make uniform, by patent license agreements or by other concerted action, the prices, or the terms or conditions of sale of, gypsum products sold or offered for sale or resale in or affecting interstate commerce; and from engaging in, pursuant to such an agreement or understanding, any of the following acts or practices:

1. The further performance or enforcement of any of the provisions of the license agreements adjudged unlawful in Article IV hereof, including the provisions of any price bulletin issued thereunder;
2. Agreeing upon or adhering to any basis for the selection or classification of purchases of gypsum products;
3. Refraining from selling gypsum products to any purchaser or any class of purchasers;
4. Agreeing upon any plan of selling or quoting gypsum products at prices calculated or determined pursuant to a delivered price plan which results in identical prices or price quotations at given points of sales or quotation by defendants using such plan;
5. Policing, investigating, checking or inquiring into the prices, quantities, terms or conditions of any offer to sell or sale of gypsum products.

[fol. 792]

Article VI

1. Defendant United States Gypsum Company is hereby ordered and directed to grant to each applicant therefor, but only in so far as it has the right to do so, a non-exclusive license to make, use and vend under any, some or all of the

patents now or hereafter owned or controlled by it; and is hereby enjoined from making any sale or other disposition of any of said patents which deprives it of the power or authority to grant such licenses, unless it requires, as a condition of such sale, transfer or assignment, that the purchaser, transferee or assignee shall observe the requirements of Articles VI and VIII of this judgment and unless the purchaser, transferee or assignee shall file with this Court, prior to consummation of said transaction, an undertaking to be bound by said articles of this judgment.

2. Defendant United States Gypsum Company is hereby enjoined from including any restriction or condition whatsoever in any license or sublicense granted by it pursuant to the provisions of this article except that (a) the license may be nontransferable; (b) a reasonable non-discriminatory royalty may be charged, which royalty may not be imposed upon or measured by patent-free products, processes or uses; (c) reasonable provisions may be made for periodic inspection of the books and records of the licensee by an independent auditor or any person acceptable to the licensee, who shall report to the licensor only the amount of the royalty due and payable; (d) reasonable provision may be made for cancellation of the license upon failure of the licensee to pay the royalty or to permit the inspection of its books and records as hereinabove provided; (e) the license must provide that the licensee may cancel the license at any time after one year from the initial date thereof by giving 30 days' notice in writing to the licensor.

3. Upon receipt of written request for a license under the provisions of this article, defendant United States Gypsum Company shall advise the applicant in writing of the royalty which it deems reasonable for the patent or [fol. 793] patents to which the request pertains. If the parties are unable to agree upon a reasonable royalty within 60 days from the date such request for a license was received by United States Gypsum Company, the applicant therefor may forthwith apply to this Court for the determination of a reasonable royalty, and the United States Gypsum Company shall, upon receipt of notice of the filing of such application, promptly give notice thereof to the Attorney General, who shall have the right to be

heard thereon. The reasonable royalty rates, if any, determined by the Court shall apply to the applicant and all other licensees under the same patent or patents. Pending the completion of any such proceeding the applicant shall have the right to make, use and vend under the patents to which his application pertains without payment of royalty or other compensation except as provided in paragraph 4 of this article.

4. Where an application has been made to this Court for the determination of a reasonable royalty under paragraph 3 of this article, United States Gypsum Company may apply to the Court to fix an interim royalty rate pending final determination of what constitutes a reasonable royalty. If the Court fixes such interim royalty rate, United States Gypsum Company shall then issue and the applicant shall accept a license, or, as the case may be, a sublicense, providing for the periodic payment of royalties at such interim rate from the date of the filing of such application by the applicant. If the applicant fails to accept such license or fails to pay the interim royalty in accordance therewith, such action shall be grounds for the dismissal of his application. Where an interim license or sublicense has been issued pursuant to this paragraph, reasonable royalty rates, if any, as finally determined by the Court shall be retroactive for the applicant and for all other licensees under the same patent or patents whose licenses provide for a higher royalty rate to a date to be fixed by the Court.

[fol. 794] 5. At any time after five years from the effective date of this judgment defendant United States Gypsum Company may apply to this Court, after notice to the Attorney General, for an order limiting the application of paragraph 1 of this Article to patents coming under the ownership or control of the United States Gypsum Company prior to the date of such application; and the Court, upon a showing by United States Gypsum Company that the effects of defendants' combination have been dissipated and that competitive conditions in the gypsum board industry have been restored, shall grant said application and enter an order modifying paragraph 1 of Article VI of this judgment.

Article VII

Nothing contained in this judgment shall be deemed to have any effect upon the operations or activities of the defendants which are authorized or permitted by the Act of Congress of April 10, 1918, commonly called the Webb-Pomerene Act, or the Act of Congress of August 17, 1937, commonly called the Miller-Tydings Act, or by any present or future act of Congress or amendment thereto; provided, however, nothing contained in this article shall in any manner affect the provisions of Article VI of this judgment.

Article VIII

For the purpose of securing compliance with this judgment, authorized representatives of the Department of Justice, upon written request of the Attorney General or an Assistant Attorney General to any defendant company and upon reasonable notice, shall be permitted, subject to any legally recognized privilege, access during the office hours of said defendant to all books, ledgers, accounts, correspondence, memoranda, and other records and documents in the possession or under the control of said defendant relating to any matters contained in this judgment. Any authorized representative of the Department of Justice shall be permitted to interview officers or employees of any [fol. 795] defendant company regarding any such matters, subject to the reasonable convenience of said defendant but without restraint or interference from it; provided, however, that such officer or employee may have counsel present. No information obtained by the means provided in this article shall be divulged by any representative of the Department of Justice to any person other than a duly authorized representative of such Department, except in the course of legal proceedings to which the United States is a party for the purpose of securing compliance with this judgment or as otherwise required by law.

Article IX

Judgment is entered against the defendant companies for 50% of all costs to be taxed in this proceeding, which 50% amounts to $1412.00; and the costs so to be taxed are

hereby prorated against the several defendant companies as follows:

United States Gypsum Company	$776.60
National Gypsum Company	324.76
Certain-teed Products Corporation	155.32
The Cellotex Corporation	42.36
Ebsary Gypsum Company, Inc.	42.36
Newark Plaster Company	56.48
Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company	14.12

Article X

Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this judgment, or any other person, firm or corporation that may hereafter become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or [fol. 796] carrying out of this judgment, and (2) for the enforcement of compliance therewith and the punishment of violations thereof.

By —— ——.

Dated —— ——, 1951.

I hereby certify that the within is a true and correct copy of plaintiff's proposed final judgment as filed with the district court on March 6, 1951.
Dated October 19, 1955.

Edward Knuff, Attorney for United States of America; Hugh Lynch, Jr., Attorney for U. S. Gypsum Co.

[fol. 797] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

Civil Action No. 8017

UNITED STATES OF AMERICA, Plaintiff,

v.

UNITED STATES GYPSUM COMPANY; NATIONAL GYPSUM Company; Certain-Teed Products Corporation; The Celotex Corporation; Ebsary Gypsum Company, Inc.; Newark Plaster Company; Samuel M. Gloyd, Doing Business Under The Name of Texas Cement Plaster Company; Sewell L. Avery; Oliver M. Knode; Melvin H. Baker; Frederick G. Ebsary; and Frederick Tomkins, Defendants

PRELIMINARY STATEMENT AND SUGGESTED FORM OF REVISED DECREE—BY U.S. GYPSUM CO.—Filed March 6, 1951

This cause came on for trial before this Court on November 15, 1943. At the conclusion of plaintiff's presentation of the case, defendants moved, pursuant to Rule 41(b) of the Federal Rules of Civil Procedure, for judgment dismissing the complaint on its merits. The motion of defendants was granted August 6, 1946. The judgment so rendered by this Court was reversed by the Supreme Court of the United States, and the case was remanded to this Court for further proceedings in conformity with the opinion of the Supreme Court (333 U. S. 364).

Following the remand, the plaintiff, pursuant to Rule 56 of the Federal Rules of Civil Procedure, moved for summary judgment in its favor upon the pleadings and all of the proceedings which theretofore had been had in the case, or, in the alternative, for such further proceedings [fol. 798] as this Court might direct, and defendants, by direction of the Court, filed proffers of proof.

Argument by counsel for the respective parties upon the motion of plaintiff was heard by the Court, and after due consideration of such argument and of defendants' proffers of proof, Garrett, J. and Jackson, J., constituting a majority of the Court, announced a ruling to the effect

that plaintiff's motion for summary judgment would be granted, and Stephens, J., who presided during the trial, announced his dissent from such ruling.

Thereafter counsel for plaintiff and counsel for certain of the defendants submitted forms of final decrees for the consideration of the Court and also suggested findings of fact, the latter to be considered in the event the Court should deem it necessary to make any findings of fact additional to those originally found by it and to those stated in the opinion of the Supreme Court.

In due course, the Court heard arguments respecting the proposed decrees and the suggested findings of fact, and full consideration was given thereto and to all prior proceedings—all being considered in the light of the decision of the Supreme Court which, as understood by the majority of this Court, held that the defendants acted in concert to restrain trade and commerce in the gypsum board industry and monopolized said trade and commerce among the several states in that section hereinafter referred to as the eastern territory of the United States, which section embraces all the states of the United States westward from the eastern coast thereof to the Rocky Mountains and including New Mexico, Colorado, Wyoming, and the eastern half of Montana.

[fol. 799] Thereafter this Court, on November 7, 1949, entered its decree sustaining plaintiff's motion for summary judgment and granting relief which it deemed appropriate to its adjudication. Plaintiff thereupon appealed to the Supreme Court seeking to have the scope of the relief enlarged, and certain defendants appealed to the Supreme Court for a reversal of the judgment, which latter appeal was dismissed by the Supreme Court on May 29, 1950. On November 27, 1950, the Supreme Court rendered an opinion on the plaintiff's appeal, affirming this Court's adjudication of Sherman Act violation, holding there was concerted action through the fixed-price licenses and accepting as true the underlying facts in the defendants' proof by proffer. Nevertheless, the Supreme Court reversed the decree heretofore entered herein and remanded the cause to this Court with instructions to

modify its decree and for further proceedings in conformity with its opinion.

Upon remand, this Court, after ordering counsel for the plaintiff and for the defense to submit forms of decree in conformity with the Supreme Court opinion and after hearing arguments of the respective parties with respect thereto, has modified its decree of November 7, 1949, in accordance with the Supreme Court's opinion of November 27, 1950.

DECREE

It is therefore ordered, adjudged and decreed:

Article I

This Court has jurisdiction of the subject matter hereof and of the parties hereto. The complain states a cause of action against defendants under the Act of Congress of July 2, 1890, entitled "An Act to Protect Trade and Com- [fol. 800] merce Against Unlawful Restraints and Monopolies," commonly known as the Sherman Antitrust Act, and acts amendatory thereof and supplemental thereto.

Article II

As used in this decree:

1. "Defendant companies" shall mean all of the corporate defendants and Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company.

2. "Gypsum board" shall mean plaster board or lath (including perforated and metallized lath) and wallboard (including metallized wallboard) made from gypsum.

3. "Gypsum products" shall mean gypsum board as defined in the preceding paragraph, and plaster, block, tile and Keene's cement made from gypsum.

4. "Patents" shall mean United States Letters Patent and applications for United States Letters Patent relating to gypsum board, its processes, methods of manufacture, or use, now owned or controlled by defendant United States Gypsum Company and any such Letters Patent issued to or acquired by it within a period of five (5) years from the date of this decree, and continuations

in whole or in part, renewals, reissues, divisions, and extensions of any such Letters Patent or applications for Letters Patent.

5. "Patent Licenses" shall mean the patent license agreements which were in effect between defendant United States Gypsum Company and each of the other defendant companies at the time the complaint herein was filed and described in said complaint as follows:

[fol. 801] Agreement dated October 15, 1929, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee;

Agreement dated October 17, 1929, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee;

Agreement dated October 18, 1929, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee;

Agreement dated November 5, 1929, between United States Gypsum Company, as licensor, and Universal Gypsum and Lime Company (National Gypsum Company, as Assignee), as licensee;

Agreement dated November 25, 1929, between United States Gypsum Company, as licensor, and American Gypsum Company (The Celotex Corporation, as Assignee), as licensee;

Agreement dated April 23, 1930, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Co., as Assignee), licensee;

Agreement dated February 10, 1937, between United States Gypsum Company, as licensor, and Texas Cement Plaster Company, as licensee;

Agreement dated October 5, 1934, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee (Metallized board);

Agreement dated October 12, 1934, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Company, as Assignee), as licensee (Metallized board);

Agreement dated November 2, 1934, between United States Gypsum Company, as licensor, and Certain-

teed Products Corporation, as licensee (Metallized board);

Agreement dated December 4, 1934, between United States Gypsum Company, as licensor, and American Gypsum Company (The Celotex Corporation, as Assignee), as licensee (Metallized board);

Agreement dated August 14, 1935, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Metallized Board);

Agreement dated June 8, 1938, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee (Perforated lath);

[fol. 802] Agreement dated September 16, 1938, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee (Perforated lath);

Agreement dated February 2, 1937, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Perforated lath);

Agreement dated September 16, 1938, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Perforated lath);

Agreement dated June 23, 1937, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Company, as Assignee), as licensee (Perforated lath);

Agreement dated January 3, 1939, between United States Gypsum Company, as licensor, and Newark Plaster Company, as licensee (Perforated lath);

and any supplement or amendment to any of said patent license agreements.

Article III

The defendant companies have acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board and have monopolized trade and commerce in the gypsum board industry in violation of sections 1 and 2 of the Sherman Antitrust Act.

Article IV

Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void.

Article V

Each of the defendant companies and each of their respective officers, directors, agents, employees, representatives, subsidiaries, and any person acting or claiming to act under, through or for them or any of them are hereby [fol. 803] enjoined and restrained from entering into or performing any agreement or understanding among the defendants or any of them in restraint of trade and commerce in gypsum products among the several states of the United States by license agreements or other concerted action by agreement or understanding among them to fix, maintain or stabilize prices of gypsum products or the terms and conditions of sale thereof; and from engaging in, pursuant to any such agreement or understanding, any of the following acts or practices:

(1) agreeing upon any basis for the selection or classification of purchasers of gypsum products;

(2) refraining from selling gypsum products to any purchaser or any class of purchasers;

(3) agreeing upon any plan of selling or quoting gypsum products at prices calculated or determined pursuant to a delivered price plan which results in identical prices or price quotations at given points of sales or quotation by defendants using such plan;

(4) policing, investigating, checking or inquiring into the prices, quantities, terms or conditions of any offer to sell or sale of gypsum products.

Article VI

1. Defendant United States Gypsum Company is hereby ordered and directed to grant to each applicant making application therefor within five years after the effective date hereof, but only in so far as it has the right to do so, a non-exclusive license to make, use and vend [fol. 804] under any, some or all patents as hereinbefore

defined, at a reasonable, nondiscriminatory royalty or royalties for the use thereof, which said licenses shall be in form substantially as those license agreements which the Court has this day approved and ordered filed herein.

2. As to the patents which have heretofore been licensed under any of the patent licenses set out in Article II hereof, the license agreement may fix a royalty for the use of such patents not to exceed the royalty on the same article or process fixed in the license agreements set out in Article II hereof; and the tender by defendant United States Gypsum Company to each applicant for a license agreement under such patents, or any of them, in the applicable form of said license agreements so approved and ordered filed herein by the Court, shall constitute compliance by defendant United States Gypsum Company with the provisions of Paragraph 1 of Article VI in so far as such heretofore licensed patents are concerned.

3. As to any other patent, the royalty for the use of such patent or patents shall be as theretofore finally determined by this Court, or in the absence of such a final determination, as may be agreed upon between licensor and licensee. Upon receipt of written request for such a license, defendant United States Gypsum Company shall advise the applicant in writing of the applicable royalty if theretofore finally determined by this Court, or in the absence of such a determination, the royalty which it deems reasonable for the patent or patents for which the request pertains. If no such final determination shall have theretofore been made and the parties are unable to agree upon [fol. 805] a reasonable royalty at any time within sixty (60) days from the date such request for a license was received by United States Gypsum Company, the applicant therefor may forthwith apply to this Court for the determination of a reasonable royalty for the use of such patent, and the applicant shall promptly give written notice of the filing of such application to the United States Gypsum Company and to the Attorney General of the United States, who shall have the right to be heard thereon. The reasonable royalty rate or rates so determined by the Court

shall apply to such patent or patents in the licenses of the applicant and, from the date of such determination, to such patent or patents in all other licenses then outstanding or thereafter issued under this decree.

4. Where an application has been made to this Court for the determination of a reasonable royalty under paragraph 3 of this Article, the applicant may apply to the Court to fix an interim royalty rate pending final determination of what constitutes a reasonable royalty. If the Court fixes such interim royalty rate, United States Gypsum Company shall then issue and the applicant shall accept an interim license providing for the periodic payment of royalties at such interim rate from the date of such interim license. If the applicant fails to accept such license or fails to pay the interim royalty in accordance therewith, such action shall be grounds for the dismissal of the application for determination of a reasonable royalty, and withdrawal or cancellation of the interim license. Where an interim license has been issued pursuant to this paragraph, the reasonable royalty rates for any [fol. 806] patent or patents as finally determined by the Court shall apply to such patent or patents in the licenses of the applicant and all other applicants then before the Court and shall be retroactive with respect to each such applicant to the date on which he or it first received his or its interim license under such patent or patents.

5. Each license granted hereunder may make provision for periodic inspection of the books and records of the licensee on behalf of the licensor, but any such inspection shall be by an independent auditor selected by licensor or by any other person acceptable to both the licensor and licensee, who shall report to the licensor only the amount of the royalties which were payable during the period covered by the inspection.

6. Defendant United States Gypsum Company is hereby enjoined and restrained from making any sale or other disposition of any of said patents which would deprive it of the power or authority to grant such licenses, unless in any sale, transfer or assignment it shall be required that the purchaser, transferee or assignee shall observe the provisions of this section.

Article VII

Nothing contained in this decree shall be deemed to have any effect upon the operations or activities of said defendants which are authorized or permitted by the Act of Congress of April 10, 1918, commonly called the Webb-Pomerene Act, or the Act of Congress of August 17, 1937, commonly called the Miller-Tydings Act, or by any present or future act of Congress or amendment thereto; provided, however, nothing contained in this Article shall in any manner affect the provisions of Article VI of this decree.

[fol. 807]

Article VIII

For the purpose of securing compliance with this decree, and for no other purpose, duly authorized representatives of the Department of Justice, upon written request of the Attorney General or any Assistant Attorney General, and on reasonable notice in writing addressed to any defendant company at its principal office, shall be permitted, subject to any legally recognized privilege: (a) access during the office hours of said defendant to all books, ledgers, accounts, correspondence, memoranda, and other records and documents in its possession or under its control relating to any of the matters contained in this judgment; (b) subject to the reasonable convenience of said defendant and without restraint or interference from it, to interview officers or employees of said defendant regarding any of the matters contained in this judgment; provided, however, that either said defendant or any such officer or employee may have counsel present at any such interview. No information obtained by the means permitted in this Article shall be divulged by any representative of the Department of Justice to any person other than a duly authorized representative of the Department of Justice, except in the course of legal proceedings in which the United States of America is a party, for the purpose of securing compliance with this decree.

Article IX

Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any

of the parties to this decree, or any other person, firm or corporation that may hereafter become bound thereby in [fol. 808] whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith.

Article X

Judgment is entered against the defendant companies for 50% of the costs of $2824.00 to be taxed in this proceeding, and the costs so to be taxed are hereby prorated against the several defendant companies as follows:

United States Gypsum Company	$776.60
National Gypsum Company	324.76
Certain-teed Products Corporation	155.32
The Celotex Corporation	42.36
Ebsary Gypsum Company, Inc.	42.36
Newark Plaster Company	56.48
Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company	14.12

Let the decree be entered.

By —— ——.

—— ——, 1951.

[fol. 809] License Agreement

This agreement, made this —— day of ——, A. D. ——, by and between United States Gypsum Company, an Illinois corporation, of Chicago, Illinois, hereinafter referred to as Licensor, and ——, a —— corporation, of ——, hereinafter referred to as Licensee,

Witnesseth:

that

Whereas, Licensee desires to obtain a license to make, use and sell gypsum board made according to the processes or embodying the claims of one or more of the hereinafter mentioned patents, owned by Licensor, through the full term thereof and Licensor has agreed to grant such license upon the terms and conditions hereinafter stated;

Now, therefore, in consideration of the sum of One Dollar and other good and valuable considerations, the receipt whereof is hereby acknowledged, and of the mutual covenants and agreements hereinafter contained, the parties hereto have agreed as follows, to-wit:

1. Licensor has agreed to and does hereby give and grant unto Licensee an indivisible and non-exclusive right, license, and privilege to use the process or processes, and inventions and improvements claimed in any and all of the following letters patent:

Patent Number	*Date*	*Expiration Date*
2017022	October 8, 1935	October 8, 1952
2079338	May 4, 1937	May 4, 1954
2080009	May 11, 1937	May 11, 1954

[fol. 810] in the manufacture of gypsum board as hereinafter defined, at the plants or factories now owned or operated by Licensee, or at any other plant or factory hereafter owned or operated by it or any subsidiary, associated or affiliated company, and of manufacturing at any such place or places, selling and using in the United States of America, and the territories and possessions thereof, gypsum board manufactured under the processes or embodying the inventions and improvements claimed in said patents, for the full term of the last to expire of said letters patent, including any reissues thereof.

Licensor also agrees promptly to disclose to Licensee all information and formulae, not heretofore disclosed to Licensee, which it now has or may obtain relating to the process of making a cellular product through the formation of tenacious foam and mixing the foam with a cementitious material, as set forth and claimed in applications for United States Letters Patent as originally filed by Carlisle K. Roos, Serial Nos. 73197, 3477, and 142155, and by Erik C. Bayer, Serial No. 661723, or in Letters Patent Nos. 2017022, 2079338, and 2080009, in so far as the same is or may be applied to gypsum, and including all information and formulae for the manufacture of gypsum board embodying the inventions and improvements set forth and claimed in the aforesaid applications or letters patent.

2. Licensee agrees to pay to Licensor for the right and privilege granted under Paragraph 1 above a license fee or royalty at the rate of —— per cent (——%) of Licensee's selling price of all gypsum board manufactured under any of the processes or embodying any of the inventions covered by said patents and sold by it during the term hereof, provided that no license fee or royalty shall be payable on gypsum board exported by Licensee to [fol. 811] any foreign country.

Licensee's selling price shall mean the net price at Licensee's shipping point after deducting transportation charges and cash discounts allowed by Licensee; provided however, that in the case of laminated gypsum board, except with a metallized surface, the net price for the purposes hereof shall be deemed to be Licensee's net price at the time of sale in the same market area, determined as above provided, for the quantity of plain gypsum board actually used or incorporated therein.

3. The license herein granted shall be personal to the Licensee and shall not be sold, assigned or transferred, either voluntarily, or by operation of law, without the written consent of Licensor; *Provided, however,* that the license may be assigned by Licensee to any company acquiring all of Licensee's gypsum and gypsum board business, and assets pertaining thereto, or all of the capital stock of Licensee, on condition that Licensee shall first obtain, and deliver to Licensor, such assignee's written agreement to assume all of the obligations of Licensee hereunder and agreeing to be bound by all of the terms and conditions hereof.

4. Licensee agrees to keep separate, full and accurate books of accounts and records showing the exact quantity of all gypsum board manufactured under any of the processes or embodying any of the inventions covered by said patents and sold by it, together with the Licensee's selling price thereof, and agrees that on or before the 20th day of each calendar month it will deliver to Licensor at its office in Chicago, Illinois, true written returns, verified under oath by an officer or other authorized agent of Licensee, setting forth the quantity of all such gypsum

board manufactured by it, and sold during the preceding [fol. 812] calendar month, and the amount of royalty due and payable on account of such gypsum board so manufactured and sold. Licensee also agrees to pay to Licensor at its said office on or before the 20th day of each calendar month the hereinbefore stipulated royalties or license fees which may then be due under the terms of this agreement on account of all such gypsum board manufactured by it and sold during the preceding calendar month.

5. Licensor shall have the right, at all reasonable times and for such period or periods of time as it may from time to time determine, to verify the correctness of the royalty payments by periodic inspection of the accounts and records of Licensee referred to in the next preceding paragraph, provided, however, that such inspection shall be made by an independent auditor, or by any other person acceptable to both Licensor and Licensee, who shall report to Licensor only the amount of the royalties which were payable during the period covered by the inspection. If Licensee shall object to the independent auditor selected by Licensor, then Licensor shall name, in writing addressed to Licensee, three certified public accountants of good standing, not directly or indirectly employed by it or in any other manner connected with it, and if Licensee shall not within ten days thereafter accept in writing any one of them, then Licensor shall have the right to designate one of the three to act as the independent auditor. In any event, the expense of making any such audit shall be borne equally by the parties.

6. Licensee agrees that all gypsum board manufactured and sold by it under or embodying the claims of any of such patents shall be distinctly marked with the word "Patent" followed by the numbers of any of the aforesaid [fol. 813] patents, the claims of which are embodied in said gypsum board, and Licensee further agrees to distinctly mark said gypsum board with the words "Licensed under the above patents and also under the process claims of patent," followed by the number of any of the aforesaid patents of which any process claimed therein is utilized in the manufacture of said product; and Licensee further agrees to distinctly mark said gypsum board with any other

appropriate notice as Licensor shall specify from time to time.

7. In the event either party shall at any time neglect, fail or refuse to keep or perform any of the conditions or agreements to be kept or performed by it under the provisions hereof, then the other party may at its election serve upon the party in default written notice of intention to terminate this license and specifying the alleged default. If the party in default shall not cure the default so specified within thirty (30) days thereafter then the other party may, subject to the provisions of paragraph 8 below, cancel and terminate this agreement without any court action by serving upon the party in default written notice of its election so to do; provided, that neither party shall be relieved thereby from any liability accrued at the time of such termination.

8. If a party upon whom a default notice is served under Paragraph 7 above shall deny the specified defaults, in whole or in part, then the right of the other party to terminate this license by reason of the defaults alleged shall be suspended, provided the party served shall (a) within the said thirty (30) day period provided in Paragraph 7 above cure any defaults which are not denied, and (b) submit to arbitration the question as to whether the specifically [fol. 814] denied defaults in fact occurred. In the event the arbitrators find that one or more of the alleged defaults have occurred, then the party in default shall cure the same within thirty (30) days from the date of the finding of such arbitrators. If not cured within said period the party serving such default notice, in addition to and without limitation upon any other rights and remedies which it may have hereunder, may cancel and terminate this agreement without any court action by serving upon the party in default written notice of its election so to do; provided, that neither party shall be relieved thereby of any liability accrued at the time of such termination.

All arbitrations had under this Paragraph 8 shall be in accordance with the Rules then obtaining of the American Arbitration Association, excepting only that the time allowed for objecting to arbitrators, or indicating the order of preference for arbitrators, as submitted to the parties

for such purpose by said Association or under its Rules, shall in no event be less than fifteen (15) days. The finding or findings of the arbitrators shall be final and conclusive. In the event the arbitrators shall find any license fees or royalties, or other sums of money herein required to be paid by the Licensee to the Licensor, are due and owing, the arbitrators shall in their findings fix and determine the amount thereof, and Licensor shall have the right (but without being limited to such remedy) to have a summary judgment entered in its favor against Licensee for the amount so found to be due by the Arbitrators in any court of competent jurisdiction.

9. In the event the Licensee shall at any time be adjudicated a bankrupt, then the license hereunder shall immediately be and become cancelled and terminated, but the Licensor shall not thereby be prevented from collecting all [fol. 815] license fees or royalties accrued hereunder at the time of such termination.

10. The waiver of any breach by either party shall not be interpreted as constituting a waiver of any other or further breach or breaches. Either party may specifically enforce this contract, or any of the terms, conditions and covenants thereof, by injunction or in such other manner as may be permitted by law.

11. Any notice required or permitted to be served by either party upon the other under the terms hereof, may be served by mailing the same to the other party, postage prepaid and registered, addressed to such other party at its last known principal office, and the deposit of such notice in the United States mails, postage prepaid and so addressed, shall constitute service of notice hereunder.

12. In case Licensor shall grant to any other person any license under the aforesaid patents for the manufacture, sale or use of gypsum board made by use of the processes or embodying the claims or inventions claimed in any of said patents, or shall grant any right under any such license, upon terms more favorable than those granted hereunder to this Licensee, then it will grant to this Licensee a license on the same terms or extend to it the same right granted to any such other person.

13. The term "gypsum board" shall be understood to mean all board made of gypsum, by whatever name called, having the characteristics of gypsum plasterboard or gypsum wallboard, irrespective of the purpose for which the same may be sold or used, and shall include gypsum laths, laminated gypsum board, and all other gypsum boards. The term "laminated gypsum board", means a unit or assembly of units consisting of a gypsum board having [fol. 816] attached to one or both faces thereof a layer or layers of gypsum board, insulation board, decorated paper simulating wood veneers or tile, or other material, but as used in the proviso to Paragraph 2 above shall not include gypsum board having a metallized surface.

14. If Licensor shall at any time during the existence of this agreement make or obtain any improvement for the formation of the bubbles or foam described in the process set forth in applications for United States Letters Patent as originally filed by Carlisle K. Roos, Serial No. 733197, 3477, and 142155, and by Erik C. Bayer, Serial No. 661723, or in Letters Patent Nos. 2017022, 2079338, and 2080009, or the method of its introduction into the core of gypsum board, and which improvement is covered by the claims of the aforesaid applications and letters patent, and shall itself use the same in its own maufacture, then so long as Licensee shall continue to pay the license fees or royalties hereinbefore stipulated, the right, license or privilege herein contained shall be extended to and include the use of said improvement in the manufacture by Licensee of gypsum board, subject to all of the terms and conditions herein contained, except only that Licensee shall not be required to pay any additional royalty or license fee therefor. It is further agreed that if a patent or patents shall be granted or issued for or upon said improvement, then all of the provisions of this agreement shall apply to the improvement set forth and claimed in any such patent or patents. Licensor will promptly notify Licensee of the general adoption by it of any such improvement in its own manufacture, together with such information as it may possess as to the use thereof in the manufacture of [fol. 817] gypsum board.

15. The Licensor agrees at any time during the term

hereof to extend to Licensee, upon its written request, an indivisible and non-exclusive license or privilege to use the process or processes set forth and claimed in said Letters Patent Nos. 2017022, 2079338, and 2080009, in the manufacture in Licensee's plants of any other gypsum product not specifically covered by this agreement, and in which product Licensor shall use the same in its own manufacture, and to sell the same, upon the payment to Licensor of —— per cent (——%) of Licensee's selling price of all of such other gypsum product or products in the manufacture of which said process or processes are used), manufactured and sold by Licensee, upon the same terms as set forth herein and subject to all of the conditions hereof, in which event in the agreement for the same there shall be substituted for the words "gypsum board" the name of such other product or products. An agreement containing all of said terms and conditions shall be reduced to writing and signed by both parties before the same shall become effective.

16. This Agreement shall be effective as of the —— day of ——.

In witness whereof the parties hereto have caused these presents to be signed in duplicate by their respective presidents, attested by their respective secretaries, and [fol. 818] their corporate seal to be hereunto affixed, the day and year first above written.

United States Gypsum Company, By —— ——, President.

Attest: —— ——, Secretary.

—— ——, President.

Attest: —— ——, Secretary.

[fol. 819] LICENSE AGREEMENT

This Agreement, made this —— day of ——, A. D. ——, by and between United States Gypsum Company, an Illinois corporation, of Chicago, Illinois, hereinafter referred to as Licensor, and —— ——, a —— corporation, of ——, hereinafter referred to as Licensee,

Witnesseth:

That, whereas, Licensor is the owner of certain patent rights set forth in Schedule A hereunto annexed, relating to building structures or elements for said structures; and

Whereas, Licensee desires an indivisible and non-exclusive license from Licensor herein, to manufacture, use and sell gypsum board under said patent rights set forth in Schedule A hereof, and Licensor has agreed to grant such license upon the terms and conditions, but subject to the limitations hereinafter stated;

Now, therefore, in consideration of the mutual covenants and agreements hereinafter contained, the parties hereto agree as follows, to-wit:

1. Licensor agrees to and does hereby give and grant unto Licensee the indivisible and non-exclusive right, license and privilege to make, use, and sell gypsum board having a metallized surface, embodying the inventions disclosed and claimed in the patent set forth in Schedule A, Provided, that the right, license, and privilege herein and hereby granted is specifically limited to the gypsum board and building structures incorporating the same as set forth in Schedule A, and does not extend to any other product or structure.

[fol. 820] 2. Licensee agrees to pay to Licensor for the right and privilege granted under Paragraph 1 above, a royalty for all gypsum board having a metallized surface manufactured and sold by Licensee and which is covered by the claims of the patent set forth in Schedule A, or which is to be used in making structures covered by said patent or patent rights, at the rate of —— cents (——¢) per thousand square feet of surface area where only one face is metallized, and at the rate of —— cents (——¢) per thousand square feet where both faces are metallized, of any product covered by the aforesaid patent or any of said patent rights.

3. The license herein granted is personal to the Licensee and shall not be sold, assigned or transferred, either voluntarily or by operation of law, without the written consent of Licensor; Provided, however, that the license may be assigned by Licensee to any company acquiring all of Li-

censee's gypsum and gypsum board business, and assets pertaining thereto, on condition that Licensee shall first obtain, and deliver to Licensor, such assignee's written agreement to assume all of the obligations of Licensee hereunder and agreeing to be bound by all of the terms and conditions hereof.

4. In case Licensor shall grant to any other person any license under the aforesaid patent or patent rights for the manufacture, sale or use of gypsum board having a metallized surface and embodying the claims or inventions set forth and claimed therein, upon terms more favorable than those granted hereunder to Licensee, then Licensor shall grant to Licensee a license upon the same terms, or will extend to Licensee the same right granted to such other licensee.

[fol. 821] 5. Licensee agrees to keep true and accurate books of account showing the quantity of all gypsum board having one or more metallized surfaces, manufactured and sold by it under the rights, licenses, and privileges herein granted. Licensor shall have the right, at all reasonable times and for such period or periods of time as it may from time to time determine, to verify the correctness of the royalty payments by periodic inspection of the accounts and records of Licensee referred to in the next preceding sentence, provided, however, that such inspection shall be made by an independent auditor, or by any other person acceptable to both Licensor and Licensee, who shall report to Licensor only the amount of the royalties which were payable during the period covered by the inspection. If Licensee shall object to the independent auditor selected by Licensor, then Licensor shall name, in writing addressed to Licensee, three certified public accountants of good standing, not directly or indirectly employed by it or in any other manner connected with it, and if Licensee shall not within ten days thereafter accept in writing any one of them, then Licensor shall have the right to designate one of the three to act as the independent auditor. In any event, the expense of making any such audit shall be borne equally by the parties.

6. Licensee agrees that on or before the 15th day of each calendar month it will deliver to Licensor at its office

in Chicago, Illinois, a written report, verified by an officer or other authorized agent of Licensee, showing the quantity of all such gypsum board manufactured by it (a) having one metallized surface, and (b) having two metallized surfaces, and sold during the preceding calendar month. Li- [fol. 822] censee also agrees to pay to Licensor at its said office on or before the 15th day of each calendar month the hereinbefore stipulated royalty which may then be due under the terms of this agreement on account of all such gypsum board so sold by Licensee during the preceding calendar month. For the purposes of this agreement a sale shall be considered to have been made not later than the date on which the goods are shipped by Licensee, without regard to passing of title or whether the goods are shipped on consignment, or otherwise.

7. Licensee agrees that all gypsum board having one or more metallized surfaces sold by it hereunder shall be distinctly marked with the word "Patent" followed by the number of the aforesaid patent, the claims of which are embodied in said gypsum board, and also with the words "Licensed under the above patent". Licensee further agrees to distinctly mark said gypsum board with such other appropriate notice as Licensor shall specify from time to time.

8. In the event Licensee shall at any time neglect, fail or refuse to keep or perform any of the conditions or agreements to be kept or performed by it under the provisions hereof, then Licensor may at its election serve upon Licensee written notice specifying the alleged default and stating, if Licensor so desires, its intention to terminate this license. If Licensee shall not cure the default so specified within thirty (30) days thereafter, then Licensor may, subject to the provisions of Paragraph 9 below, maintain any appropriate action hereunder, at law or in equity, for collection of royalties, or for damages, or for any other appropriate remedy, or Licensor may, if such intention was stated in the notice of default, cancel [fol. 823] and terminate this agreement without any court action, by serving upon Licensee written notice of its eleciton so to do; provided, that Licensee shall not be relieved

thereby from any liability accrued at the time of such termination.

9. If Licensee shall deny, in whole or in part, the defaults specified in a notice served by Licensor under Paragraph 8 above, then Licensor's right to proceed as provided in Paragraph 8 above shall be suspended, provided Licensee shall (a) within the said thirty (30) day period provided in Paragraph 8 above cure any defaults which are not denied, and (b) submit to arbitration the question as to whether the specifically denied defaults in fact occurred. In the event the arbitrators find that one or more of the alleged defaults have occurred, then Licensee shall cure the same within thirty (30) days from the date of the finding of such arbitrators. If not cured within said period then Licensor may proceed in such manner as it may elect as provided in Paragraph 8 above.

All arbitrations had under this Paragraph 9 shall be in accordance with the Rules then obtaining of the American Arbitration Association, excepting only that the time allowed for objecting to arbitrators, or the order of preference for arbitrators, as submitted to the parties for such purpose by said Association or under its Rules, shall in no event be less than fifteen (15) days. The finding or findings of the arbitrators shall be final and conclusive. In the event the arbitrators shall find any royalties, or other sums of money herein required to be paid by the Licensee to the Licensor, are due and owing, the arbitrators shall in their findings fix and determine the amount thereof, and Licensor shall have the right (but without [fol. 824] being limited to such remedy) to have a summary judgment entered in its favor against Licensee for the amount so found to be due by the arbitrators in any court of competent jurisdiction.

10. In the event (a) that Licensee shall be adjudicated a bankrupt, or (b) a receiver shall be appointed for Licensee, whose appointment shall not be vacated within sixty (60) days thereafter, then the rights, licenses and privileges herein granted to Licensee shall forthwith cease and determine, without further action on the part of the Licensor, provided that such termination shall not relieve Licensee of any liability then existing.

11. The waiver by Licensor of any breach on the part of the Licensee shall not be interpreted as constituting a waiver of any further or other breach or breaches.

12. Any notice required or permitted to be served by either party upon the other under the terms hereof, may be served by mailing the same to the other party, postage prepaid and registered, addressed to such party at its last known principal office, and the deposit of such notice in the United States mails, registered, postage prepaid and so addressed, shall constitute service of notice hereunder.

13. The term "gypsum board" shall be understood to mean all board made of gypsum, by whatever name called, having the characteristics of gypsum plasterboard or gypsum wallboard, irrespective of the purpose for which the same may be sold or used, and shall include gypsum laths, laminated gypsum board, and all other gypsum boards.

14. Except as otherwise provided herein, this agreement shall remain in force for the full term of the patent rights [fol. 825] set forth in Schedule A, and shall be binding upon and inure to the benefit of the parties hereto and their successors and assigns; provided that nothing in this paragraph contained shall be construed to permit any assignment hereof except as herein otherwise specifically provided. Nothing herein contained shall be construed to relieve Licensee from the payment of royalties under license agreement of even date herewith under Letters Patent Nos. 2017022, 2079338, and 2080009, it being understood that the royalties provided herein are in addition to the royalties or license fees provided in such other agreement. In the event the exclusive right and license of Licensor as set forth in Schedule A hereof shall terminate for any reason whatever, whether on account of Licensor's default or otherwise, and such termination shall result in the termination of any of the rights, licenses and privileges herein granted to the Licensee, then this agreement shall immediately terminate without further act on the part of either of the parties hereto, and without liability of any kind by Licensor to Licensee on account thereof, provided that Licensee shall not thereby be released from any then existing liability to Licensor.

15. Licensor hereby represents and warrants that it has the right to grant the license herein granted.

16. This agreement shall be effective as of the —— day of ——, ——.

In witness whereof, the parties hereto have caused these presents to be signed by their respective Presidents, attested by their respective Secretaries, and their corporate [fol. 826] seals to be hereunto affixed, in duplicate, the day and year first above written.

United States Gypsum Company, By —— ——, President.

Attest: —— ——, Secretary.

By —— ——, President.

Attest: —— ——, Secretary.

[fol. 827]

SCHEDULE A

Licensor has the exclusive right and license to make, use and sell building structures or elements for building structures where insulation is obtained by the use of gypsum board having a metallized surface under the following patent known as the Alfol patent:

Inventor	*Patent No.*	*Issue Date*
Schmidt	2,015,817	October 1, 1935

together with any divisions, continuations, renewals or reissues thereof, but it is understood that the term "building structures" is limited to the walls, floors, roofs and ceilings of buildings and does not include pipes or ducts, or other heating apparatus installed in the building, or refrigerating or cooling apparatus or structures whether built into the building or not. Licensor has no right or license under the said patent to use metal foil for insulation except where such foil is applied to a non-metallic member as a facing therefor.

I hereby certify that the within is a true and correct copy of the Preliminary Statement as filed with the District Court, March 6, 1951, and stipulated to by all counsel.

Hugh Lynch, Jr., Attorney for U. S. Gypsum Co.

[fol. 828] IN THE DISTRICT COURT OF THE UNITED STATES
FOR THE DISTRICT OF COLUMBIA

[Title omitted]

PRELIMINARY STATEMENT AND SUGGESTED FORM OF REVISED DECREE BY NATIONAL GYPSUM CO.—Filed March 6, 1951

This cause came on for trial before this Court on November 15, 1943. At the conclusion of plaintiff's presentation of the case, defendants moved, pursuant to Rule 41(b) of the Federal Rules of Civil Procedure, for judgment dismissing the complaint on its merits. The motion of defendants was granted August 6, 1946. The judgment so rendered by this Court was reversed by the Supreme Court of the United States, and the case was remanded to this Court for further proceedings in conformity with the opinion of the Supreme Court (333 U. S. 364).

Following the remand, the plaintiff, pursuant to Rule 56 of the Federal Rules of Civil Procedure, moved for summary judgment in its favor upon the pleadings and all of the proceedings which theretofore had been had in the case, or, in the alternative, for such further proceedings as this Court might direct, and defendants, by direction of the Court, filed proffers of proof.

[fol. 829] Argument by counsel for the respective parties upon the motion of plaintiff was heard by the Court, and after due consideration of such argument and of defendants' proffers of proof, Garrett, J. and Jackson, J., constituting a majority of the Court, announced a ruling to the effect that plaintiff's motion for summary judgment would be granted, and Stephens, J., who presided during the trial, announced his dissent from such ruling.

Thereafter counsel for plaintiff and counsel for certain of the defendants submitted forms of final decrees for the consideration of the Court and also suggested findings of fact, the latter to be considered in the event the Court should deem it necessary to make any findings of fact additional to those originally found by it and to those stated in the opinion of the Supreme Court.

In due course, the Court heard arguments respecting the proposed decrees and the suggested findings of fact,

and full consideration has been given thereto and to all prior proceedings—all being considered in the light of the decision of the Supreme Court which, as understood by the majority of this Court, held that the defendants acted in concert to restrain trade and commerce in the gypsum board industry and monopolized said trade and commerce among the several states in that section hereinafter referred to as the eastern territory of the United States, which section embraces all the states of the Unted States westward from the eastern coast thereof to the Rocky Mountains and including New Mexico, Colorado, Wyoming, and the eastern half of Montana.

[fol. 830] Whereupon this Court, on November 7, 1949, entered its decree sustaining plaintiff's motion for summary judgment and granting relief which it deemed appropriate to its adjudication. Plaintiff thereupon appealed to the Supreme Court seeking to have the scope of the relief enlarged, and certain defendants appealed to the Supreme Court for a reversal of the judgment, which latter appeal was dismissed by the Supreme Court on May 29, 1950. On November 27, 1950, the Supreme Court rendered an opinion on the plaintiff's appeal, affirming this Court's adjudication of Sherman Act violation. Nevertheless, the Supreme Court reversed the decree heretofore entered herein and remanded the cause to this Court with instructions to modify its decree and for further proceedings in conformity with its opinion.

Upon remand, this Court, after ordering counsel for the plaintiff and for the defense to submit forms of decree in conformity with the Supreme Court opinion and after hearing arguments of the respective parties with respect thereto, has modified its decree of November 7, 1949, in accordance with the Supreme Court's opinion of November 27, 1950.

DECREE

It is therefore ordered, adjudged and decreed:

Article I

This Court has jurisdiction of the subject matter hereof and of the parties hereto. The complaint states a cause of action against defendants under the Act of Congress of

July 2, 1890, entitled "An Act to Protect Trade and Commerce Against Unlawful Restraints and Monopolies," commonly known as the Sherman Antitrust Act, and acts amendatory thereof and supplemental thereto.

[fol. 831] Article II

As used in this decree:

1. "Defendant companies" shall mean all of the corporate defendants and Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company.

2. "Gypsum board" shall mean plaster board or lath (including perforated and metallized lath) and wallboard (including metallized wallboard) made from gypsum.

3. "Gypsum products" shall mean gypsum board as defined in the preceding paragraph, and plaster, block, tile and Keene's cement made from gypsum.

4. "Patents" shall mean United States Letters Patent and applications for United States Letters Patent relating to gypsum board, its processes, methods of manufacture, or use, now owned or controlled by defendant United States Gypsum Company and any such patents issued to or acquired by it within a period of five (5) years from the date of this decree, and continuations in whole or in part, renewals, reissues, divisions, and extensions of any such patent or patent applications.

5. "Patent Licenses" shall mean the patent license agreements which were in effect between defendant United States Gypsum Company and each of the other defendant companies at the time the complaint herein was filed and described in said complaint as follows:

(Here list contracts included in decree of 11/7/49).

Article III

The defendant companies have acted in concert in restraint of trade and commerce among the several states in [fol. 832] the eastern territory of the United States to fix, maintain and control the prices of gypsum board and have monopolized trade and commerce in the gypsum board industry in violation of sections 1 and 2 of the Sherman Antitrust Act.

Article IV

Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void.

Article V

Each of the defendant companies and each of their respective officers, directors, agents, employees, representatives and subsidiaries are hereby enjoined and restrained from entering into or performing any agreement or understanding among the defendants or any of them in restraint of trade and commerce in gypsum products among the several states of the United States by license agreements or other concerted action by agreement or understanding among them or any of them to fix, maintain or stabilize prices of gypsum products or the terms and conditions of sale thereof; and from engaging in, pursuant to any such agreement or understanding, any of the following acts or practices:

1. Agreement upon or adhering to any basis for the selection or classification of purchasers of gypsum products.

2. Refraining from selling gypsum products to any purchaser or any class of purchasers.

3. Agreeing upon any plan of selling or quoting gypsum [fol. 833] products at prices calculated or determined pursuant to a delivered price plan which results in identical prices or price quotations at given points of sales or quotation by defendants using such plan.

4. Policing, investigating, checking or inquiring into the prices, quantities, terms or conditons of any offer to sell or sale of gypsum products.

Article VI

1. Defendant United States Gypsum Company is hereby ordered and directed to grant to each applicant therefor within five (5) years after the effective date hereof a non-exclusive license to make, use and vend under any, some or all of the patents and patent applications now or hereafter owned or controlled by it relating to gypsum board;

and is hereby enjoined from making any sale or other disposition of any of said patents which deprives it of the power or authority to grant such licenses, unless in any sale, transfer or assignment it shall be required that the purchaser, transferee or assignee shall observe the provisions of this article.

2. Each license granted hereunder may make provision for periodic inspection of the books and records of the licensee on behalf of the licensor, but any such inspection shall be by an independent auditor, or by any other person acceptable to both the licensor and licensee, who shall report to the licensor only the amount of the royalties which were payable during the period covered by the inspection.

3. Upon receipt of written request for a license under the provisions of this article, defendant United States [fol. 834] Company shall advise the applicant in writing of the royalty which it deems reasonable for the patent or patents to which the request pertains. If the parties are unable to agree upon a reasonable royalty within 60 days from the date such request for a license was received by United States Gypsum Company, the applicant therefor may forthwith apply to this Court for the determination of a reasonable royalty, and United States Gypsum Company shall, upon receipt of notice of the filing of such application, promptly give notice thereof to the Attorney General, who shall have the right to be heard thereon. The reasonable royalty rates, if any, determined by the Court shall apply to the applicant and all other licensees under the same patent or patents. Pending the completion of any such proceeding the applicant shall have the right to make, use and vend under the patents to which his application pertains without payment of royalty or other compensation except as provided in paragraph 4 of this article.

4. Where an application has been made to this Court for the determination of a reasonable royalty under paragraph 3 of this article, United States Gypsum Company may apply to the Court to fix an interim royalty rate pending final determination of what constitutes a reasonable royalty. If the Court fixes such interim royalty rate,

United States Gypsum Company shall then issue and the applicant shall accept a license, or, as the case may be, a sublicense, providing for the periodic payment of royalties at such interim rate from the date of the filing of such application by the applicant. If the applicant fails to accept such license or fails to pay the interim royalty in accordance therewith, such action shall be [fol. 835] grounds for the dismissal of his application. Where an interim license or sublicense has been issued pursuant to this paragraph, reasonable royalty rates, if any, as finally determined by the Court shall be retroactive for the applicant and for all other licensees under the same patent or patents whose licenses provide for a higher royalty rate to a date to be fixed by the Court.

Article VII

Nothing contained in this judgment shall be deemed to have any effect upon the operations or activities of the defendants which are authorized or permitted by the Act of Congress of April 10, 1918, commonly called the Webb-Pomerene Act, or the Act of Congress of August 17, 1937, commonly called the Miller-Tydings Act, or by any present or future act of Congress or amendment thereto; provided, however, nothing contained in this article shall in any manner affect the provisions of Article VI of this judgment.

Article VIII

For the purpose of securing compliance with this judgment, authorized representatives of the Department of Justice, upon written request of the Attorney General or an Assistant Attorney General to any defendant company and upon reasonable notice, shall be permitted, subject to any legally recognized privilege, access during the office hours of said defendant to all books, ledgers, accounts, correspondence, memoranda, and other records and documents in the possession or under the control of said defendant relating to any matters contained in this judgment. Any authorized representative of the Department of Justice shall be permitted to interview officers or employees of any defendant company regarding any

[fol. 836] such matters, subject to the reasonable convenience of said defendant but without restraint or interference from it; provided, however, that such officer or employee may have counsel present. No information obtained by the means provided in this article shall be divulged by any representative of the Department of Justice to any person other than a duly authorized representative of such Department, except in the course of legal proceedings to which the United States is a party for the purpose of securing compliance with this judgment or as otherwise required by law.

Article IX

Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this judgment, or any other person, firm or corporation that may hereafter become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this judgment, and (2) for the enforcement of compliance therewith and the punishment of violations thereof.

Article X

Judgment is entered against the defendant companies for 50% of the costs to be taxed in this proceeding, and the costs so to be taxed are hereby prorated among the several defendant companies as follows:

United States Gypsum Company	$776.60
National Gypsum Company	324.76
Certain-teed Products Corporation	155.32
The Celotex Corporation	42.36
Ebsary Gypsum Company, Inc.	42.36
[fol. 837]	
Newark Plaster Company	56.48
Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company	14.12

Let the decree be entered.

By —— ——.

I hereby certify that the within is a true and correct copy of the Preliminary Statement as filed with the District Court, March 6, 1951, and stipulated to by all counsel.
Hugh Lynch, Jr., Attorney for U. S. Gypsum Co.

[fol. 838] IN THE DISTRICT COURT OF THE UNITED STATES
FOR THE DISTRICT OF COLUMBIA

[Title omitted]

PRELIMINARY STATEMENT AND SUGGESTED FORM OF REVISED DECREE BY CERTAIN-TEED PRODUCTS CORP.—Filed March 6, 1951

This cause came on for trial before this Court on November 15, 1943. At the conclusion of plaintiff's presentation of the case, defendants moved, pursuant to Rule 41(b) of the Federal Rules of Civil Procedure, for judgment dismissing the complaint on its merits. The motion of defendants was granted August 6, 1946. The judgment so rendered by this Court was reversed by the Supreme Court of the United States, and the case was remanded to this Court for further proceedings in conformity with the opinion of the Supreme Court (333 U. S. 364).

[fol. 839] Following the remand, the plaintiff, pursuant to Rule 56 of the Federal Rules of Civil Procedure, moved for summary judgment in its favor upon the pleadings and all of the proceedings which theretofore had been had in the case, or, in the alternative, for such further proceedings as this Court might direct, and defendants, by direction of the Court, filed proffers of proof.

Argument by counsel for the respective parties upon the motion of plaintiff was heard by the Court, and after due consideration of such argument and of defendants' proffers of proof, Garrett, J. and Jackson, J., constituting a majority of the Court, announced a ruling to the effect that plaintiff's motion for summary judgment would be granted, and Stephens, J., who presided during the trial, announced his dissent from such ruling.

Thereafter counsel for plaintiff and counsel for certain of the defendants submitted forms of final decrees for the

consideration of the Court and also suggested findings of fact, the latter to be considered in the event the Court should deem it necessary to make any findings of fact additional to those originally found by it and to those stated in the opinion of the Supreme Court.

In due course, the Court heard arguments respecting the proposed decrees and the suggested findings of fact, and full consideration was given thereto and to all prior proceedings—all being considered in the light of the decision of the Supreme Court which, as understood by the majority of this Court, held that the defendants acted in concert to [fol. 840] restrain trade and commerce in the gypsum board industry and monopolize said trade and commerce among the several states in that section hereinafter referred to as the eastern territory of the United States, which section embraces all the states of the United States westward from the eastern coast thereof to the Rocky Mountains and including New Mexico, Colorado, Wyoming, and the eastern half of Montana.

Thereafter this Court, on November 7, 1949, entered its decree sustaining plaintiff's motion for summary judgment and granting relief which it deemed appropriate to its adjudication. Plaintiff thereupon appealed to the Supreme Court seeking to have the scope of the relief enlarged, and certain defendants appealed to the Supreme Court for a reversal of the judgment, which latter appeal was dismissed by the Supreme Court on May 29, 1950. On November 27, 1950, the Supreme Court rendered an opinion on the plaintiff's appeal, affirming this Court's adjudication of Sherman Act violation, holding there was concerted action through the fixed-price licenses and accepting as true the underlying facts in the defendants' proof by proffer. Nevertheless, the Supreme Court reversed the decree heretofore entered herein and remanded the cause to this Court with instructions to modify its decree and for further proceedings in conformity with its opinion.

Upon remand, this Court, after ordering counsel for the plaintiff and for the defense to submit forms of decree in conformity with the Supreme Court opinion and after hearing arguments of the respective parties with respect thereto, has modified its decree of November 7, 1949, in

[fol. 841] accordance with the Supreme Court's opinion of November 27, 1950.

DECREE

It is therefore ordered, adjudged and decreed:

Article I

This Court has jurisdiction of the subject matter hereof and of the parties hereto. The complaint states a cause of action against defendants under the Act of Congress of July 2, 1890, entitled "An Act to Protect Trade and Commerce Against Unlawful Restraints and Monopolies," commonly known as the Sherman Antitrust Act, and acts amendatory thereof and supplemental thereto.

Article II

As used in this decree:

1. "Defendant companies" shall mean all of the corporate defendants and Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company.

2. "Gypsum board" shall mean plaster board or lath including perforated and metallized lath) and wallboard (including metallized wallboard) made from gypsum.

3. "Gypsum products" shall mean gypsum board as defined in the preceding paragraph, and plaster, block tile and Keene's cement made from gypsum.

4. "Patents" shall mean United States Letters Patent and applications for United States Letters Patent relating to gypsum board, its processes, methods of manufacture, [fol. 842] or use, now owned or controlled by defendant United States Gypsum Company and any such Letters Patent issued to or acquired by it within a period of five (5) years from the date of this decree, and continuations in whole or in part, renewals, reissues, divisions, and extensions of any such Letters Patent or applications for Letters Patent.

5. "Patent Licenses" shall mean the patent license agreements which were in effect between defendant United States Gypsum Company and each of the other defendant

companies at the time the complaint herein was filed and described in said complaint as follows:

Agreement dated October 15, 1929, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee;

Agreement dated October 17, 1929, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee;

Agreement dated October 18, 1929, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee;

Agreement dated November 5, 1929, between United States Gypsum Company, as licensor, and Universal Gypsum and Lime Company (National Gypsum Company, as Assignee), as licensee;

Agreement dated November 25, 1929, between United States Gypsum Company, as licensor, and American Gypsum Company (The Celotex Corporation, as Assignee), as licensee;

Agreement dated April 23, 1930, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Co., as Assignee), licensee;

Agreement dated February 10, 1937, between United States Gypsum Company, as licensor, and Texas Cement Plaster Company, as licensee;

[fol. 843] Agreement dated October 5, 1934, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee (Metallized board);

Agreement dated October 12, 1934, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Company, as Assignee), as licensee (Metallized board);

Agreement dated November 2, 1934, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee (Metallized board);

Agreement dated December 4, 1934, between United States Gypsum Company, as licensor, and American Gypsum Company (The Celotex Corporation, as Assignee), as licensee (Metallized board);

Agreement dated August 14, 1935, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Metallized Board);

Agreement dated June 8, 1938, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee (Perforated lath);

Agreement dated September 16, 1938, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee (Perforated lath);

Agreement dated February 2, 1937, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Perforated lath);

Agreement dated September 16, 1938, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Perforated lath);

Agreement dated June 23, 1937, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Company, as Assignee), as licensee (Perforated lath);

Agreement dated January 3, 1939, between United States Gypsum Company, as licensor, and Newark Plaster Company, as licensee (Perforated lath);

[fol. 844] and any supplement or amendment to any of said patent license agreements.

Article III

The defendant companies have acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board and have monopolized trade and commerce in the gypsum board industry in violation of sections 1 and 2 of the Sherman Antitrust Act.

Article IV

Each of the license agreements listed in Article II hereof is adjudged unlawful under the antitrust laws of the United States and illegal, null and void.

Article V

Each of the defendant companies and each of their respective officers, directors, agents, employees, representatives and subsidiaries are hereby enjoined and restrained from entering into or performing any agreement or understanding among the defendants or any of them in restraint of trade and commerce in gypsum products among the several states of the United States by license agreements or other concerted action by agreement or understanding among them or any of them to fix, maintain or stabilize prices of gypsum products or the terms and conditions of sale thereof; and from engaging in, pursuant to any such agreement or understanding, any of the following acts or practices:

[fol. 845] (1) agreeing upon any basis for the selection or classification of purchasers of gypsum products;

(2) refraining from selling gypsum products to any purchaser or any class of purchasers;

(3) agreeing upon any plan of selling or quoting gypsum products at prices calculated or determined pursuant to a delivered price plan which results in identical prices or price quotations at given points of sales or quotation by defendants using such plan;

(4) policing, investigating, checking or inquiring into the prices, quantities, terms or conditions of any offer to sell or sale of gypsum products.

Article VI

1. Defendant United States Gypsum Company is hereby ordered and directed to grant to each applicant making application therefor within five years after the effective date hereof, a non-exclusive license to make, use and vend under any, some or all of the patents as hereinbefore defined; and is hereby enjoined from making any sale or other disposition of any of said patents which deprives it of the power or authority to grant such licenses, unless it requires, as a condition of such sale, transfer or assignment, that the purchaser, transferee or assignee shall observe the [fol. 846] requirements of Article VI of this decree and

unless the purchaser, transferee or assignee shall file with this Court, prior to consummation of said transaction, an undertaking to be bound by said articles of this decree.

2. Each license granted hereunder may make provision for periodic inspection of the books and records of the licensee on behalf of the licensor, but any such inspection shall be by an independent auditor, or by any other person acceptable to both the licensor and licensee, who shall report to the licensor only the amount of the royalties which were payable during the period covered by the inspection.

3. Upon receipt of written request for a license under the provisions of this article, defendant United States Gypsum Company shall advise the applicant in writing of the royalty which it deems reasonable for the patent or patents to which the request pertains. If the parties are unable to agree upon a reasonable royalty within 60 days from the date such request for a license was received by United States Gypsum Company, the applicant therefor may forthwith apply to this Court for the determination of a reasonable royalty, and shall promptly give notice thereof to the United States Gypsum Company and the Attorney General, who shall have the right to be heard thereon. Upon the filing of such application and pending the completion of any such proceeding the applicant shall have the right to make, use and vend under the patents to which his applica- [fol. 847] tion pertains and shall make payment of royalty or other compensation as provided in paragraph 4 of this article.

4. Where an application has been made to this Court for the determination of a reasonable royalty under paragraph 3 of this article, applicant shall at the same time also apply to the court to fix an interim royalty rate pending final determination of what constitutes a reasonable royalty. If the court fixes such interim royalty rate, United States Gypsum Company shall then issue and the applicant shall accept a license, or, as the case may be, a sublicense, providing for the periodic payment of royalties at such interim rate from the date of the filing of such application by the applicant. If the applicant fails to make such application for an interim royalty rate or fails to accept such license or fails to pay the interim royalty in ac-

cordance therewith, such action shall be grounds for the dismissal of his application. Where an interim license or sublicense has been issued pursuant to this paragraph, reasonable royalty rates, if any, as finally determined by the court shall be retroactive for the applicant to the date of first use of said patent or patents and for all other licensees under the same patent or patents to the date of such final determination.

[fol. 848] Article VII

Nothing contained in this decree shall be deemed to have any effect upon the operation or activities of said defendants which are authorized or permitted by the Act of Congress of April 10, 1918, commonly called the Webb-Pomerene Act, or the Act of Congress of August 17, 1937, commonly called the Miller-Tydings Act, or by any present or future act of Congress or amendment thereto; provided, however, nothing contained in this Article shall in any manner affect the provisions of Article VI of this decree.

Article VIII

For the purpose of securing compliance with this decree, and for no other purpose, duly authorized representatives of the Department of Justice, upon written request of the Attorney General or any Assistant Attorney General, and on reasonable notice in writing addressed to any defendant company at its principal office, shall be permitted, subject to any legally recognized privilege: (a) access during the office hours of said defendant to all books, ledgers, accounts, correspondence, memoranda, and other records and documents in its possession or under its control relating to any of the matters contained in this judgment; (b) subject to the reasonable convenience of said defendant and without restraint or interference from it, to interview officers or employees of said defendant regarding any of the matters contained in this judgment; provided, however, that either said defendant or any such officer or employee may have [fol. 849] counsel present at any such interview. No information obtained by the means permitted in this Article shall be divulged by any representative of the Department of Justice to any person other than a duly authorized repre-

sentative of the Department of Justice, except in the course of legal proceedings in which the United States of America is a party, for the purpose of securing compliance with this decree.

Article IX

Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith.

Article X

Judgment is entered against the defendant companies for 50% of the costs of $2824.00 to be taxed in this proceeding, and the costs so to be taxed are hereby prorated against the several defendant companies as follows:

[fol. 850] United States Gypsum Company	$776.60
National Gypsum Company	324.76
Certain-teed Products Corporation	155.32
The Celotex Corporation	42.36
Ebsary Gypsum Company, Inc.	42.36
Newark Plaster Company	56.48
Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company	14.12

Let the decree be entered.

By —— ——.

—— ——, 1951.

I hereby certify that the within is a true and correct copy of Preliminary Statement as filed with the District Court, March 6, 1951, and stipulated to by all counsel.

Hugh Lynch, Jr., Attorney for U. S. Gypsum Co.

[fol. 851] [File endorsement omitted]

IN THE DISTRICT COURT OF THE UNITED STATES
FOR THE DISTRICT OF COLUMBIA

Civil Action No. 8017

UNITED STATES OF AMERICA, Plaintiff,

v.

UNITED STATES GYPSUM COMPANY; NATIONAL GYPSUM Company; Certain-Teed Products Corporation; The Celotex Corporation; Ebsary Gypsum Company, Inc.; Newark Plaster Company; Samuel M. Gloyd, Doing Business Under The Name of Texas Cement Plaster Company; Sewell L. Avery; Oliver M. Knode; Melvin H. Baker; Frederick G. Ebsary; and Frederick Tomkins, Defendants

PRELIMINARY STATEMENT AND FINAL DECREE—May 15, 1951

This cause came on for trial before this Court on November 15, 1943. At the conclusion of plaintiff's presentation of the case, defendants moved, pursuant to Rule 41(b) of the Federal Rules of Civil Procedure, for judgment dismissing the complaint on its merits. The motion of defendants was granted August 6, 1946. The judgment so rendered by this Court was reversed by the Supreme Court of the United States, and the case was remanded to this Court for further proceedings in conformity with the opinion of the Supreme Court (333 U. S. 364).

Following the remand, the plaintiff, pursuant to Rule 56 of the Federal Rules of Civil Procedure, moved for summary judgment in its favor upon the pleadings and all of the proceedings which theretofore had been had in the [fol. 852] case, or, in the alternative, for such further proceedings as this Court might direct, and defendants, by direction of the Court, filed proffers of proof.

Argument by counsel for the respective parties upon the motion of plaintiff was heard by the Court, and after due consideration of such argument and of defendants'

proffers of proof, Garrett, J. and Jackson, J., constituting a majority of the Court, announced a ruling to the effect that plaintiff's motion for summary judgment would be granted, and Stephens, J., who presided during the trial, announced his dissent from such ruling.

Thereafter counsel for plaintiff and counsel for certain of the defendants submitted forms of final decrees for the consideration of the Court and also suggested findings of fact, the latter to be considered in the event the Court should deem it necessary to make any findings of fact additional to those originally found by it and to those stated in the opinion of the Supreme Court.

In due course, the Court heard arguments respecting the proposed decrees and the suggested findings of fact, and full consideration was given thereto and to all prior proceedings—all being considered in the light of the decision of the Supreme Court which, as understood by the majority of this Court, held that the defendants acted in concert to restrain trade and commerce in the gypsum board industry and monopolized said trade and commerce among the several states in that section hereinafter referred to as the eastern territory of the United States, which section embraces all the states of the United States westward from the eastern coast thereof to the Rocky Mountains and including New Mexico, Colorado, Wyoming, and the eastern half of Montana.

[fol. 853] Thereafter this Court, on November 7, 1949, entered its decree sustaining plaintiff's motion for summary judgment and granting relief which it deemed appropriate to its adjudication. Plaintiff thereupon appealed to the Supreme Court seeking to have the scope of the relief enlarged, and certain defendants appealed to the Supreme Court for a reversal of the judgment, which latter appeal was dismissed by the Supreme Court on May 29, 1950. On November 27, 1950, the Supreme Court rendered an opinion on the plaintiff's appeal, affirming this Court's adjudication of Sherman Act violation, holding there was concerted action through the fixed-price licenses and accepting as true the underlying facts in the defendants' proof by proffer. Nevertheless, the Supreme Court reversed the decree heretofore entered herein and

remanded the cause to this Court with ins ructions to modify its decree and for further proceedings in conformity with its opinion.

Upon remand, this Court, after ordering counsel for the plaintiff and for the defense to submit forms of decree in conformity with the Supreme Court opinion and after considering such forms has modified its decree of November 7, 1949, in accordance with the Supreme Court's opinion of November 27, 1950.

DECREE

It is therefore ordered, adjudged and decreed:

Article I

This Court has jurisdiction of the subject matter hereof and of the parties hereto. The complaint states a cause of action against defendants under the Act of Congress of July 2, 1890, entitled "An Act to Protect Trade and Com- [fol. 854] merce Against Unlawful Restraints and Monopolies," commonly known as the Sherman Antitrust Act, and acts amendatory thereof and supplemental thereto.

Article II

As used in this decree:

1. "Defendant companies" shall mean all of the corporate defendants and Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company.

2. "Gypsum board" shall mean plaster board, lath, wallboard, special surface board, sheathing, liner board (including any such product which is perforated or metallized) made from gypsum.

3. "Gypsum products" shall mean gypsum board as defined in the preceding paragraph, and plaster, block, tile and Keene's cement made from gypsum.

4. "Patents" shall mean United States Letters Patent and applications for United States Letters Patent relating to gypsum board, its processes, methods of manufacture or use, now owned or controlled by defendant United States Gypsum Company and issued to, applied for or acquired by defendant United States Gypsum Com-

pany within a period of five (5) years from the date of this decree, including Letters Patent issued upon any of said applications, and continuations in whole or in part, renewals, reissues, divisions and extensions of any such Letters Patent or applications for Letters Patent.

5. "Patent Licenses" shall mean the patent license agreements which were in effect between defendant United States Gypsum Company and each of the other defendant companies at the time the complaint herein was filed and described in said complaint as follows:

[fol. 855] Agreement dated October 15, 1929, between United States Gypsum Company, as licensor, and Certain-teed Products Corporations, as licensee;

Agreement dated October 17, 1929, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee;

Agreement dated October 18, 1929, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee;

Agreement dated November 5, 1929, between United States Gypsum Company, as licensor, and Universal Gypsum and Lime Company (National Gypsum Company, as Assignee), as licensee;

Agreement dated November 25, 1929, between United States Gypsum Company, as licensor, and American Gypsum Company (The Celotex Corporation, as Assignee), as licensee;

Agreement dated April 23, 1930, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Co., as Assignee), licensee;

Agreement dated February 10, 1937, between United States Gypsum Company, as licensor, and Texas Cement Plaster Company, as licensee;

Agreement dated October 5, 1934, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee (Metallized board);

Agreement dated October 12, 1934, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Company, as Assignee), as licensee (Metallized board);

Agreement dated November 2, 1934, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee (Metallized board);

Agreement dated December 4, 1934, between United States Gypsum Company, as licensor, and American Gypsum Company (The Celotex Corporation, as Assignee), as licensee (Metallized board);

Agreement dated August 14, 1935, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Metallized Board);

Agreement dated June 8, 1938, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee (Perforated lath);

[fol. 856] Agreement dated September 16, 1938, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as Licensee (Perforated lath);

Agreement dated February 2, 1937, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Perforated lath);

Agreement dated September 16, 1938, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Perforated lath);

Agreement dated June 23, 1937, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Company, as Assignee), as licensee (Perforated lath);

Agreement dated January 3, 1939, between United States Gypsum Company, as licensor, and Newark Plaster Company, as licensee (Perforated lath);

and any supplement or amendment to any of said patent license agreements.

Article III

The defendant companies have acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board and have

monopolized trade and commerce in the gypsum board industry in violation of sections 1 and 2 of the Sherman Anti-trust Act.

Article IV

Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void.

Article V

The defendant companies, and their respective officers, directors, agents, employees, representatives, subsidiaries, and any person acting or claiming to act under, through or for them, or any of them, be and each of them hereby is enjoined from entering into or performing any agree-[fol. 857] ment or understanding among the defendant companies or other manufacturers of gypsum products to fix, maintain or stabilize, by patent license agreements or other acts or course of action, the prices, or the terms or conditions of sale, of gypsum products sold or offered for sale to other persons, in or affecting interstate commerce; and from engaging in, pursuant to such an agreement or understanding, any of the following acts or practices:

(1) agreeing upon any basis for the selection or classification of purchasers of gypsum products;

(2) refraining from selling gypsum products to any purchaser or any class of purchasers;

(3) agreeing upon any plan of selling or quoting gypsum products at prices calculated or determined pursuant to a delivered price plan which results in identical prices or price quotations at given points of sales or quotation by defendants using such plan;

(4) policing, investigating, checking or inquiring into the prices, quantities, terms or conditions of any offer to sell or sale of gypsum products.

Article VI

1. Defendant United States Gypsum Company is hereby ordered and directed to grant to each applicant making application therefor, but only in so far as it has the right

to do so, a non-exclusive license to make, use and vend under any, some or all patents as hereinbefore defined, at a reasonable, non-discriminatory royalty or royalties there- [fol. 858] for. Defendant United States Gypsum Company is hereby enjoined from making any sale or other disposition of any of said patents which deprives it of the power or authority to grant such licenses unless it requires as a condition of such sale, transfer or assignment that the purchaser, transferee or assignee shall observe the requirements of Articles VI and VIII of this decree, and unless the purchaser, transferee or assignee shall file with this Court, prior to or as a part of the consummation of said transaction, an undertaking to be bound by said articles of this decree.

2. Defendant United States Gypsum Company is hereby enjoined from including any restriction or condition whatsoever in any license or sublicense granted by it pursuant to the provisions of this article, except that (a) the license may be indivisible and non-transferable; (b) a reasonable, non-discriminatory royalty may be charged, which royalty may not be imposed upon or measured by patent-free products, processes or uses; (c) provision may be made requiring licensee to keep full and accurate records of the gypsum board manufactured and sold by it under any such patent and requiring licensee to make appropriate reports to licensor as to the royalty due, but such reports shall not disclose the selling price of the board or disclose a breakdown of the size or thickness of the board sold; (d) reasonable provision may be made for periodic inspection of the books and records of the licensee by an independent auditor, or by any person acceptable to the licensor and licensee, who shall report to the licensor only the amount of royalty due and payable; (e) reasonable provision may be made for marking the gypsum board manufactured or sold under the licensed patent; and (f) [fol. 859] reasonable provision may be made for cancellation of the license upon failure of the licensee to pay the royalty or to permit the inspection of its books and records or for other material breach of the terms of the license agreement by licensee, or in the event licensee shall be adjudged a bankrupt. The license agreement

shall be in writing signed by the parties thereto and shall to the extent that licensor has the right to do so, grant to the licensee the full right to make, use and vend the inventions and improvements described in the claims of each patent licensed, in the manufacture, sale or use of gypsum board, for the full term of the patent and any renewal, reissue, division, or extension thereof, and may contain the provisions hereinabove set forth and such other lawful provisions as may be agreed upon between the parties thereto and which are not in conflict with any of the provisions of this decree.

3. Upon receipt of written request for such a license defendant United States Gypsum Company shall advise the applicant in writing of the royalty which it deems reasonable for the patent or patents to which the request pertains. If the parties are unable to agree upon a reasonable royalty within sixty (60) days from the date such request for a license was received by United States Gypsum Company, the applicant therefor shall within ten (10) days thereafter apply to this court for a determination of a reasonable royalty or be deemed to have abandoned his said request for such license. The applicant shall promptly give written notice of the filing of such application to the United States Gypsum Company and to the Attorney Gen- [fol. 860] eral of the United States, who shall have the right to be heard thereon. The reasonable royalty rate or rates so determined by the court shall apply to such patent or patents in the license of the applicant from the date of his last written request for such license, and to such patent or patents in all other licenses then or thereafter issued under this decree from the date of such determination. Pending the completion of any such proceeding, applicant shall have the right to make, use and vend under the patent or patents to which his application pertains upon the terms and conditions as set forth in paragraph 4 of this article, provided he files his application for the determination of a reasonable royalty as aforesaid.

4. Where an application has been made to this Court for the determination of a reasonable royalty under paragraph 3 of this Article, the applicant or the United States Gypsum Company may apply to the court to fix an interim

royalty rate pending final determination of what constitutes a reasonable royalty. If the court fixes such interim royalty rate, United States Gypsum Company shall then issue and the applicant shall accept an interim license agreement effective as of the date of the applicant's last written request for such license hereunder and in the form this day filed herein and approved by the court, providing for the periodic payment of royalties at such interim rate from the effective date of such interim license. If applicant fails to accept such interim license or fails to pay the interim royalty in accordance therewith, any such action or omission shall be grounds for the dismissal of the application for the determination of a reasonable royalty and the withdrawal or cancellation of [fol. 861] the interim license. Where an interim license has been issued pursuant to this paragraph, reasonable royalty rates for any patent or patents as finally determined by the court shall apply to such patent or patents in the licenses of the applicant and all other applications then before the court and shall be retroactive with respect to each such applicant to the date of his said written request for such license.

Article VII

Nothing contained in this decree shall be deemed to have any effect upon the operations or activities of said defendants which are authorized or permitted by the Act of Congress of April 10, 1918, commonly called the Webb-Pomerene Act, or the Act of Congress of August 17, 1937, commonly called the Miller-Tydings Act, or by any present or future act of Congress or amendment thereto; provided, however, nothing contained in this Article shall in any manner affect the provisions of Article VI of this decree.

Article VIII

For the purpose of securing compliance with this decree, and for no other purpose, duly authorized representatives of the Department of Justice, upon written request of the Attorney General or any Assistant Attorney General, and on reasonable notice in writing addressed to any defendant

company at its principal office, shall be permitted, subject to any legally recognized privilege: (a) access during the office hours of said defendant to all books, ledgers, accounts, correspondence, memoranda, and other records and documents in its possession or under its control re-
[fol. 862] lating to any of the matters contained in this judgment; (b) subject to the reasonable convenience of said defendant and without restraint or interference from it, to interview officers or employees of said defendant regarding any of the matters contained in this judgment; provided, however, that either said defendant or any such officer or employee may have counsel present at any such interview. No information obtained by the means permitted in this Article shall be divulged by any representative of the Department of Justice to any person other than a duly authorized representative of the Department of Justice, except in the course of legal proceedings in which the United States of America is a party, for the purpose of securing compliance with this decree or as otherwise required by law.

Article IX

Judgment is entered against the defendant companies for 50% of the costs of $2824.00 to be taxed in this proceeding, and the costs so to be taxed are hereby prorated against the several defendant companies as follows:

United States Gypsum Company	$776.60
National Gypsum Company	324.76
Certain-teed Products Corporation	155.32
The Celotex Corporation	42.36
Ebsary Gypsum Company, Inc.	42.36
Newark Plaster Company	56.48
Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company	14.12

[fol. 863]

Article X

Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound thereby

in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith.

Let the decree be entered.

Harold M. Stephens, Finis J. Garrett, Joseph R. Jackson.

May 15, 1951.

[fol. 864] INTERIM LICENSE

This agreement, made this —— day of ——, A.D. ——, by and between United States Gypsum Company, an Illinois corporation, of Chicago, Illinois, hereinafter referred to as Licensor, and ——, a —— corporation, of ——, hereinafter referred to as Licensee,

Witnesseth, That

Whereas, Licensee desires to obtain a license to make, use and sell gypsum board made according to the processes or embodying the claims of one or more of the hereinafter mentioned patents, owned by Licensor, through the full term thereof;

Now, therefore, in consideration of the sum of One Dollar and other good and valuable considerations, the receipt whereof is hereby acknowledged, and of the mutual covenants and agreements hereinafter contained, the parties hereto have agreed as follows, to wit:

1. Licensor has agreed to and does hereby give and grant unto Licensee an indivisible and non-exclusive right, license, and privilege to make, use and vend the inventions and improvements claimed in the following letters patent:

Patent Number	*Date*	*Expiration Date*
——	——	——

[fol. 865] in the manufacture, use or sale of gypsum board, in the United States of America and the territories and possessions thereof, for the full term of the last to expire of said letters patent, including any reissues thereof.

2. Licensee agrees to pay to Licensor for the right and privilege granted under Paragraph 1 above a license fee or royalty at the rate of —— per cent (——%) of Licensee's selling price of all gypsum board manufactured under any of the processes or embodying any of the inventions covered by said patents and sold by it during the term hereof, provided that no license fee or royalty shall be payable on gypsum board exported by Licensee to any foreign country. Nothing herein contained shall prevent Licensee from selling any of said gypsum board in any foreign country.

Licensee's selling price for the purpose of computing the royalty shall mean the net price at Licensee's shipping point after deducting transportation charges and cash discounts allowed by Licensee.

3. The License herein granted shall be personal to the Licensee and shall not be sold, assigned or transferred by it either voluntarily or by operation of law without the written consent of Licensor.

4. Licensee agrees to keep separate, full and accurate books of accounts and records showing the exact quantity of all gypsum board manufactured under any of the processes or embodying any of the inventions covered by said patents and sold by it, together with the Licensee's selling price thereof, and agrees that on or before the 20th day of each calendar month it will deliver to Licensor at its office in Chicago, Illinois, true written returns, verified under [fol. 866] oath by an officer or other authorized agent of Licensee, setting forth, without any breakdown with respect to thickness and size of gypsum board, the quantity of all such gypsum board manufactured by it, and sold during the preceding calendar month, and the amount of royalty due and payable on account of such gypsum board so manufactured and sold. Licensee also agrees to pay to Licensor at its said office on or before the 20th day of each calendar month the hereinbefore stipulated royalties or license fees which may then be due under the terms of this agreement on account of all such gypsum board manufactured by it and sold during the preceding calendar month.

5. Licensor shall have the right, at all reasonable times and for such period or periods of time as it may from time to time determine, to verify the correctness of the royalty

payments by periodic inspection of the accounts and records of Licensee referred to in the next preceding paragraph, provided, however, that such inspection shall be made by an independent auditor, or by any other person acceptable to both Licensor and Licensee, who shall report to Licensor only the amount of the royalties which were payable during the period covered by the inspection. If Licensee shall object to the independent auditor selected by Licensor, then Licensor shall name, in writing addressed to Licensee, three certified public accountants of good standing, not directly or indirectly employed by it or in any other manner connected with it, and if Licensee shall not within ten days thereafter accept in writing any one of them, then Licensor shall have the right to designate one of the three to act as the independent auditor. In any event, the expense of making any such audit shall be borne equally by the parties.

[fol. 867] 6. Licensee agrees that all gypsum board manufactured and sold by it under or embodying the claims of any of such patents shall be distinctly marked with the word "Patent" followed by the numbers of any of the aforesaid patents, the claims of which are embodied in said gypsum board, and Licensee further agrees to distinctly mark said gypsum board with the words "Licensed under the above patents and also under the process claims of patent," followed by the number of any of the aforesaid patents of which any process claimed therein is utilized in the manufacture of said product.

7. In the event either party shall at any time neglect, fail or refuse to keep or perform any of the conditions or agreements to be kept or performed by it under the provisions hereof, then the other party may at its election serve upon the party in default written notice of intention to terminate this license and specifying the alleged default. If the party in default shall not cure the defaults so specified within thirty (30) days thereafter, then the other party may cancel and terminate this agreement by serving upon the party in default written notice of its election so to do. In the event the Licensee shall at any time be adjudicated a bankrupt, then the license hereunder shall immediately be and become cancelled and terminated. Neither party, by

any such cancellation or termination, shall be relieved from any liability accrued at the time thereof.

8. Any notice required or permitted to be served by either party upon the other under the terms hereof, may be served by mailing the same to the other party, postage prepaid and registered, addressed to such other party at its last [fol. 868] known principal office, and the deposit of such notice in the United States mails, postage prepaid and so addressed, shall constitute service of notice hereunder.

9. In case Licensor shall grant to any other person any license under the aforesaid patents for the manufacture, sale or use of gypsum board made by use of the processes or embodying the claims or inventions claimed in any of said patents, or shall grant any rights under any such license, upon terms more favorable than those granted hereunder to this Licensee, then it will grant to this Licensee a license on the same terms or extend to it the same right granted to any such other person.

10. This Agreement shall be effective as of the —— day of ——.

In witness whereof the parties hereto have caused these presents to be signed in duplicate by their respective presidents, attested by their respective secretaries, and their corporate seal to be hereunto affixed, the day and year first above written.

United States Gypsum Company, By —— ——, President.

Attest: —— ——, Secretary.

—— ——, President.

Attest: —— ——, Secretary.

[fol. 869] IN THE DISTRICT COURT OF THE UNITED STATES
FOR THE DISTRICT OF COLUMBIA

Holding a Three Judge Court

Civil Action No. 8017

UNITED STATES OF AMERICA, Plaintiff,

vs.

UNITED STATES GYPSUM COMPANY; NATIONAL GYPSUM Company; Certain-teed Products Corporation; The Celotex Corporation; Ebsary Gypsum Company, Inc.; Newark Plaster Company; Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company; Sewell L. Avery; Oliver M. Knode; Melvin H. Baker; Henry J. Hartley; Frederick G. Ebsary; and Frederick Tomkins, Defendants

Reporter's Transcript of Hearings on Proposed Final Decree of May 15, 1951

Court Room,

U.S. Court of Customs and Patent Appeals,
Washington, D. C.

Tuesday, May 15, 1951

Hearing upon proposed final decree to be modified in accordance with the directions of the Supreme Court, in the above-entitled case, convened at 10:00 a.m., pursuant to notice, before Honorable Harold M. Stephens, Honorable Finis J. Garrett, and Honorable Joseph R. Jackson, sitting as the District Court of the United States for the District of Columbia.

[fol. 870] APPEARANCES:

Roscoe T. Steffen, Esq., and Edward Knuff, Esq., Special Assistants to the Attorney General, for plaintiff.

Cranston Spray, Esq., and Hugh Lynch, Esq., for the

defendants United States Gypsum Company, Sewell L. Avery, and Oliver M. Knode;

Elmer E. Finck, Esq., for the defendants National Gypsum Company and Melvin H. Baker;

Norman Miller, Esq., for the defendant Certain-Teed Products Corporation; and

Ralph Wanless and Walter G. Moyle, for the defendants The Celotex Corporation.

[fol. 871] COLLOQUY BETWEEN COURT AND COUNSEL

Chief Judge Stephens: The court is sitting today in the matter of United States against United States Gypsum Company, et al., and will hear counsel with reference to the proposed final decree to be modified in accordance with the directions of the Supreme Court.

We will be glad to hear from you. Who wishes to proceed, the Government or defendants' counsel.

Mr. Knuff: May it please the court, before we take up the question of the final decree, I have a motion that I would like to present under Rule 41(a), and that is that I now move the court to dismiss the complaint as to Mr. Henry J. Hartley.

We do not think that there is sufficient evidence in the case to connect Mr. Hartley. In our brief to the Supreme Court we told the Supreme Court that on the remand of this case, if the case was remanded, that we would move to dismiss Mr. Hartley before any final decree was entered.

I now make that motion.

Chief Judge Stephens: The case may be dismissed then, as to Mr. Hartley.

Mr. Spray: May it please the court, I have been requested by my colleague, Bruce Bromley, to advise the court that he is in trial of a law suit in New York which has been carrying on for some days, and gives promise of carrying on for some days in the future.

[fol. 872] His application to the court for a recess today so that he might be here was denied, a fact which he sincerely regrets, and he wanted me to let the court know why he is not here.

I shall not, of course, presume to take his place, but in his absence I would like to present on behalf of the

United States Gypsum Company a revised form of decree and a form of interim license agreement, which is to be considered by the court in lieu of the form of decree and form of license agreements that this defendant submitted last March 6th.

We would like to ask that this be substituted for the prior form which we presented. This revised form of decree has been filed with the court. He has the original, and I believe that the copies have been furnished to the court.

It is in mimeographed form, but it is a word for word reproduction of the form of revised decree and the form of interim license which was served upon all parties to this case on May 5, and I believe copies also were furnished to the judges of this court.

When the second decision of the Supreme Court came down, we felt that certainly we had reached a point here where it was incumbent upon counsel to get together and see if we could not iron out our differences with respect to the decretal provisions, and thus try to save, in so far as possible, the time of this court in trying to resolve those differences.

Last March there were four forms of decree filed with [fol. 873] the court for consideration, one by the Government, one by the defendant United States Gypsum Company, one by the defendant Certain-Teed, and one by the defendant National.

Our negotiations with the defendants' counsel and with the Government's counsel continued, and in the light of those negotiations we have revised this form of decree which we are submitting this morning, and which we are hopeful may be considered by the court in the absence of any disagreement or objections from the other parties.

Needless to say, this is not a consent decree or even an agreed decree. Our position——

Chief Judge Stephens: You say it is or is not?

Mr. Spray: Is not.

Our position is pretty well understood by this court, I believe. We, of course, felt that the disposition that this court made in 1946 was a proper disposition of the case, but the Supreme Court held otherwise.

If summary judgment was to be entered, we felt that the form of decree which was entered by this court on November 7, 1949, was a fair and proper decree, giving all the remedy that the plaintiff was entitled to.

But again, the Supreme Court has felt otherwise, and has indicated there should be some revisions of that decree. The revised form of decree which we are submitting today is one which we feel meets all requirements of the Supreme [fol. 874] Court decision, and which we feel, in the light of that decision, is as fair and equitable a decree as can be entered under the circumstances in this case.

We therefore submit it. I am prepared, if the court should desire it, to leaf down through this and briefly state what it has done, but all parties have copies of it and the court has had copies of it, and I do not care to trespass upon the time of the court, if it is unnecessary.

Chief Judge Stephens: Well, we may wish to ask you some questions about it later.

Mr. Spray: Very well.

Chief Judge Stephens: Is there anything to be said by any of the other defendants' counsel?

Mr. Miller: May it please the court, on behalf of Certain-Teed Products Corporation, I wish to state that after the filing of the proposed decree which we filed in March with this court, there were continued negotiations, both between ourselves and counsel for United States Gypsum and the Government.

As a result of those negotiations the revised decree to which Mr. Spray has referred was submitted to us, and was, we believe, drafted.

We wish now to state to the court the objections that we had to the first decree submitted both by United States Gypsum are now removed, and we would like leave now to withdraw the decree which we have filed with this court, [fol. 875] and state to the court that we are in agreement with the decree proposed and filed by United States Gypsum.

Chief Judge Stephens: You may have leave to withdraw your previously filed proposed decree, and your agreement with this may be recorded.

May we hear from National? Mr. Finck.

Mr. Finck: If the court please, on behalf of National Gypsum Company, we also approve this revised form of decree as amended. I do not think it is necessary to withdraw any decree or proposed decree which we filed, so I will just approve it as presented.

Chief Judge Stephens: Is Celotex represented?

Mr. Wanless: On behalf of The Celotex Corporation, we state to the court that we have no objection to the form of decree proposed now by the United States Gypsum Company.

Chief Judge Stephens: Is there anyone here representing Ebsary?

Newark Plaster?

Samuel M. Gloyd, Texas Cement Plaster Company?

Mr. Spray, I presume that you represent Mr. Avery?

Mr. Spray: Yes, sir, Sewell L. Avery and Oliver M. Knode.

Chief Judge Stephens: Who represents Mr. Baker?

Mr. Finck: I represent him.

Chief Judge Stephens: Is there anyone here representing Frederick G. Ebsary?

[fol. 876] Or Frederick Tomkins?

Have you had any communication with counsel for the defendants who are not represented this morning, Mr. Spray? Do you know whether they agree with this decree or not?

Mr. Spray: I have had correspondence from Mr. Johnston, counsel for the Texas Cement Plaster Company, following the furnishing of the first form of decree which we presented, in which he said that it was quite unsatisfactory to his client.

Copies of these other forms of decree have been sent to the attorneys for Newark and for Ebsary, but I have had no communication one way or the other from them.

Chief Judge Stephens: The clerk sent notices to counsel for each of the defendants?

Mr. Spray: That is my understanding.

Chief Judge Stephens: Mr. Steffen or Mr. Knuff.

Mr. Knuff: May it please the court, I have gone over the proposed decree that was submitted here this morning, and the Government has no objection to its entry, if it is satisfactory to the court.

Chief Judge Stephens: Mr. Steffen.

Mr. Steffen: We had one or two questions we would like to ask counsel about the decree.

Judge Garrett: I would like to be sure that I have the right copy before me.

Chief Judge Stephens: These copies that were laid on our [fol. 877] desk, I assume, are true copies of the decree?

Mr. Spray: That is correct.

Judge Garrett: Copies were sent to us, of course. Are these exact replicas of those that came to our office?

Mr. Spray: They are, exactly, sir, in mimeographed form as distinguished from the ditto form.

Judge Garrett: That is all that I wanted to know. All right.

Chief Judge Stephens: There are one or two minor points on page three. The second paragraph reads:

"Upon remand, this court, after ordering counsel for the plaintiff and for the defense to submit forms of decree in conformity with the Supreme Court opinion and after hearing arguments of the respective parties with respect thereto,—"

That clause, "after hearing arguments of the respective parties with respect thereto" ought to be stricken out, I suppose. We have heard no arguments, and unless we have some this morning we probably will not hear any.

I think that should read, "and after considering the same."

We have considered the previously proposed decree, each of us has read them and reread the present proposed decree carefully, but we actually have not had arguments on them.

I should suggest that that be changed to read: "for the defense to submit forms of decree in conformity with the Supreme Court opinion and after considering the same [fol. 878] as modified—", and so forth.

Mr. Spray: Yes, sir. I think the other form was in contemplation of a hearing which we knew the court was going to have on which we anticipated there might be arguments, but that has been eliminated.

Chief Judge Stephens: Now, the next question involves the royalty provision on pages 9, 10 and 11.

Paragraph 3 on page 9, and paragraph 4 on page 10 and 11, appear to provide in the event of disagreement or inability to agree upon a royalty under the licenses which have been issued, application may be made to the court to fix either final royalty or interim royalty.

We have two questions about that. One is whether this court can, by virtue of an agreement between counsel parties to these decrees, fix royalties. Have we any jurisdiction to fix royalties? We have jurisdiction, undoubtedly we can retain jurisdiction and do, in the last paragraph, to enforce and interpret and apply, but it occurred to us that there might be some doubt as to whether the court has any jurisdiction to fix royalties for parties simply conferred upon itself by a decree which apparently all parties have agreed to.

What has been the practice of the United States District Courts heretofore in this situation, if you know, Mr. Knuff or Mr. Steffen? Have the courts issued decrees retaining for themselves powers to fix royalties where there has been [fol. 879] disagreement?

Mr. Knuff: Yes, they did that in the Hartford Empire case, and as I recall it, in the National Lead case that was specifically reserved in Judge Rifkind's decree in that case.

There are other cases. The Lime Materials case, I think is comparable, and I am quite sure there are quite a number of cases on it, Your Honor.

This practice envisioned in paragraph 3 is the usual recognized practice that the Department has followed with reference to compulsory licenses.

Judge Jackson: When it says "this court", does it mean the District Court or does it mean this particular three-man court?

Mr. Knuff: The practice has been, sir, to apply to this present court.

Judge Jackson: Suppose this present court would not have its personnel sometime when there is a disagreement, what then?

Mr. Knuff: Well, we had that situation, I think, in—well, I was going to say that we had that situation in another case, but that is not quite true.

I suppose that in case one of the members of this court were to die, or to be incapacitated, there would be another member appointed to take the vacating member's place. The practice has been to have the present court pass upon the matters in the decree.

[fol. 880] Judge Jackson: It is not any judge of the District, it is just the particular judge or the particular personnel.

Mr. Knuff: The practice has been the present personnel.

Chief Judge Stephens: That would seem to be a suitable practice, from the standpoint of convenience, because we would have more information concerning the case than a judge that was new to it.

Judge Jackson: Oh, surely.

Chief Judge Stephens: But it occurred to us that in view of the uncertainty of life, and the running of time, that it may be safer for the defendants and the Government, both, to provide in the decree that application be made to the United States District Court for the District of Columbia, rather than just to this court, because this court may not outlive the decree.

Mr. Knuff: Well, I would be glad to canvass the situation with Mr. Spray and see if we can make it in the alternative.

Chief Judge Stephens: Another question I wanted to explore somewhat is the burdens which the members of this court have in their respective offices. What has been the practice under these royalty-fixing decrees in the past? Has much litigation arisen from them? Is it likely to occupy the attention of the court much in settling disagreements as to royalties?

Mr. Knuff: No, there has not been a good deal of that. There has not been a great deal of calling upon the court to [fol. 881] fix the royalties. I do not recall of another case, other than the Hartford Empire, where the court has ever been called upon to fix the royalties.

Now, there may be one, but I don't recall.

Mr. Miller: Your Honor, there was the American Optical case very recently where the court was called upon to fix royalties.

Chief Judge Stephens: What sort of a proceeding was it, the calling of expert witnesses to testify as to the reasonableness of rates?

Mr. Miller: In that case it was reference to the master to take testimony.

Mr. Knuff: I was not familiar with that case.

Mr. Miller: There was quite a voluminous record made in the case.

Chief Judge Stephens: How long did it take?

Mr. Miller: Well, it was disposed of in the District Court. It did not go any further than that, but there was a record of over 1,000 pages, if I am not mistaken. But there were some questions there which, to my mind, would not occur in the situation you have in this case.

There were a large number of patents covering the field of arms and curvatures and temples for eyeglasses, and that kind of question would not be present in this present case.

But there was a reference to a master and expert testi- [fol. 882] mony was taken.

Chief Judge Stephens: Does counsel for either the Government or defendants have any idea how many licenses are likely to be issued by the Gypsum Company under that noncompulsory provision?

Mr. Spray: I could not state. Of course, I do know that of the patents which have heretofore been licensed, they have all expired, except the three Roos patents, and one of the metallized board patents, so that actually of what has heretofore been licensed, there are only those four patents still outstanding.

Now, there are some other patents, but whether or not there would be interest in taking license under them, I would not know. I certainly would not expect it to be voluminous.

Chief Judge Stephens: You would not expect it to be voluminous?

Mr. Spray: No, sir.

Chief Judge Stephens: Do you anticipate difficulties in agreement upon royalties for the defendants?

Mr. Spray: We do not see why there should be, and I would certainly say that I would hope there would not

be, but that is a matter which we have not fully explored, of course.

Mr. Finck: Your Honor, may I be heard?

Chief Judge Stephens: Mr. Finck.

Mr. Finck: If the court please, in all fairness to this [fol. 883] Court, I believe that there may be a hearing on the royalties for the Roos patents, because some of us believe that the royalty should be less than one per cent, and I think that Mr. MacLeish and counsel for United States Gypsum feel that it should be one per cent, so that we may have a hearing on that subject, I believe.

Mr. Spray: That being a royalty that has been determined by the parties acting at arm's length, and having been paid over all these years, I did not contemplate we would have much difficulty in arriving at a reasonable royalty for the Roos patents, but I hear what Mr. Finck says, and we will have to meet with him on that.

Chief Judge Stephens: When would such a hearing be likely to arise?

Mr. Finck: I suppose if such a hearing were to arise it would be within the next sixty days. We might be able to get together, of course, but we have not tried. It is my understanding that they feel very definite on the royalty, and we also feel very definite about it.

Chief Judge Stephens: Well, this royalty provision concerns us some, not because we wish to avoid our duty, we do not wish to avoid it, but we realize that the present members of this court are much better informed concerning the case than any new judge could be, without a great deal of expenditure of time and labor on his part to get acquainted [fol. 884] with the record, but we are concerned over the not impossible and perhaps not even improbable change in personnel of the court. Two of the judges have reached retirement age already, and it occurred to us that it might be better for both the Government and the defendants to put in at least an alternative provision that the royalty could either be fixed by this court, or upon application to any United States District Judge in the District of Columbia, or the court has jurisdiction in case of the unavailability of the present tribunal.

We have never had to meet the question of whether or not you can shift cases in the middle of a case. Judge

Bland, who was in this case at the beginning, dropped out just before the preliminary proceedings of a procedural character were terminated, so when Judge Jackson joined the court the trial commenced with the present complement.

If one judge should retire or die or become unavailable through illness or otherwise, whether that could be treated as the same court or not, I don't know.

Judge Jackson: He could be designated under retirement.

Chief Judge Stephens: The other question we have in mind is whether or not it would not be wise for you to check through with us the provisions of the requirements of the Supreme Court opinion with respect to modification, and show us where in the decree those requirements have been met.

We have all read the decree. I have read it twice, and I [fol. 885] think my brothers have also. But I have underlined each of the requirements made by the Supreme Court, and I might refer to those.

Mr. Spray: If you will do that, I will try to refer to the decree.

Chief Judge Stephens: On page 11 of the Supreme Court opinion of November 27, 1950, in the middle of the page, it states:

"There is one change acceptable to the Government and United States Gypsum and which we think desirable. Article II, Section 3 of the decree defines gypsum board as 'made from gypsum and embodying any of the inventions or improvements set forth and claimed in any of the Patents.' This is too restrictive, and the words 'and embodying any of the inventions or improvements set forth and claimed in any *of* the Patents' should be stricken, if the definition is used."

Mr. Spray: If the court will turn to page 4 of the revised draft, Article II, Section 4, you will find that that language is completely deleted from the definition of "Patents".

Chief Judge Stephens: What page?

Mr. Spray: Page 4, Article II, Section 4.

Chief Judge Stephens: I wonder if I have the right document? Page 4, Article II?

Mr. Spray: Yes, the definition of the term "Patents".

Chief Judge Stephens: Under subparagraph 4?

[fol. 886] Mr. Spray: That is right.

Chief Judge Stephens: In other words, you say there patents relating to gypsum board?

Mr. Spray: That is correct.

Chief Judge Stephens: It reads, "its processes, methods of manufacture or use," and it does not say "embodying any of the inventions or improvements set forth and claimed in any of the Patents"?

Mr. Spray: That is right.

Chief Judge Stephens: The reference in the Supreme Court opinion is not to patents but to the definition of gypsum board?

Mr. Spray: It seems to me that it came up in the definition.

Chief Judge Stephens: Not to the definition of patents.

Mr. Spray: But further I should have also referred the court to Section 2 of Article II on page 4, which is your definition of gypsum board, and you will see that there it is defined as meaning "plaster board, lath, wallboard, special surface board, sheathing, liner board (including any such product which is perforated or metallized) made from gypsum."

There is no reference made to the qualifying language contained in page 11 of the opinion of the Supreme Court.

Chief Judge Stephens: Now, the next one is on page 11 at the bottom it reads:

"The Government accepts the finding of Article III of [fol. 887] the decree but objects to Article V (2) and (3) because read together they allow agreements through price fixing by license between the United States Gypsum and Pacific Coast licensees. The complaint of Sherman Act violation was restricted to the eastern territory of the United States. The evidence applied only to that area. However, the close similarity between interstate commerce violations of the Sherman Act in eastern territory and western territory seems sufficient to justify the enlargement of the geographical scope of the decree to include all interstate commerce."

I believe in reading this decree I noticed that you have eliminated reference to the "eastern territory", except foreign commerce, I believe you exclude that, do you not?

Mr. Spray: There is an exception in Article VII, in so far as foreign commerce is concerned, that would be excluded under the provisions of the Webb-Pomerene Act.

Chief Judge Stephens: But otherwise it is unrestricted?

Mr. Spray: The only reference to the eastern territory in the decree is in Article III, where it is adjudicated that:

"The defendant companies have acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board."

That is the same language which was in this court's decree of November 7, 1949, and which the Supreme Court ex- [fol. 888] pressly affirmed on May 29.

But if you will turn to Article V you will see that all reference limiting this to the eastern territory has been deleted.

Chief Judge Stephens: Yes.

Now, the next is at the bottom of the main paragraph, in the middle paragraph on page 12. It is paragraph (c), and it reads:

"The Government asks an extension of the decree to include all gypsum products instead of patented gypsum board alone. * * * The license agreements, as indicated above, required royalties on unpatented open edge gypsum board. Board Survey, the organization created to enforce the license agreements, found possibilities of price evasion to exist by a licensee's cutting prevailing prices on other commodities, sold in conjunction with patented gypsum board. Bulletins issued to standardize sale practices, criticized rebates as violative of the license agreements. 333 U. S. 364,386. Defendants' offer of proof did not deny such effort to systematize sales. Their explanation was that the efforts were to enforce ligitimate license agreements and were not calculated steps in conspiracy or monopoly. We think the Government's request that the decree's injunctions reach gypsum products, as defined in its proposed decree, is reasonable and should be allowed."

Mr. Spray: In reply to that, Your Honor, I would call [fol. 889] the court's attention to page 4 of the suggested decree, Article II, subsection 3.

There has been included, which was not included in this court's prior judgment, a definition of the word "gypsum products", as meaning "gypsum board as defined in the preceding paragraph, and plaster, block, pile and Keene's cement made from gypsum."

Then if you will turn to Article V on page 6, you will find that the injunctive provision against the defendants runs against any agreement or understanding among the defendant companies or other manufacturers of gypsum products to fix, maintain or stabilize, by patent license agreement or other acts or course of action, the prices, or the terms or conditions of sale, of gypsum products sold or offered for sale to other persons, in or affecting interstate commerce.

So that has extended that to gypsum products, and then referring to the injunction against:

"engaging in, pursuant to such an agreement or understanding, any of the following acts or practices."

Then you run down subparagraphs 1, 2, 3 and 4 and you will see that they refer to gypsum products.

Chief Judge Stephens: And the next is in topic (d) on page 12:

"The Government asks that the decree forbid standardization of trade practices through concerted agreement. [fol. 890] Our former Gypsum opinion, pages 382-83, gives a summary of the methods adopted. Another method of regulating sales was by special provision for certain classes of customers, jobbers and manufacturing distributors. See 333 U. S. at 397 and 399, n. 18. We think this would justify the Government's requests. Article V, Sections 3, 4 and 6."

What were those requests?

Mr. Spray: If you will refer to page 7, where we have just been looking in the decree, subparagraph 1 of Article V is the equivalent of this Section 3, or substantially the same as Section 3 of Article V of the Government's form of decree that they submitted to the Supreme Court.

Chief Judge Stephens: That is the one printed in the right-hand column in the appendix?

Mr. Spray: That is correct. You will find that on page——

Chief Judge Stephens: Yes, I see that on page 21.

Mr. Spray: On page 21, yes.

Chief Judge Stephens: And No. 4:

"Refraining from selling gypsum products to any purchaser or any class of purchasers."

Mr. Spray: That is subparagraph (2) of Article V.

Chief Judge Stephens: That is subparagraph (2) again. What about 6?

Mr. Spray: Six is subparagraph (4) of Article V.

Chief Judge Stephens: That reads:

[fol. 891] "policing, investigating, check or inquiring into the prices, quantities, terms or conditions of any offer to sell or sale of gypsum products."

Then the next one, on page 14:

"To avoid any possibility that an individual's meeting of competitors' prices would be construed as a contempt of the decree, we think proposed Article V (5) should read as follows:

" '5. Agreeing upon any plan of selling or quoting gypsum products at prices calculated or determined pursuant to a delivered price plan which results in identical prices or price quotations at given points of sales or quotation by defendants using such plan.' "

Mr. Spray: That had to do with the so-called basing point method of pricing.

Chief Judge Stephens: Where is that provision contained?

Mr. Spray: That is subparagraph (3) of Article V appearing in the middle of page 7.

Chief Judge Stephens: Oh, yes.

Mr. Spray: And it is a verbatim reproduction of the paragraph that was prepared and stated by the Supreme Court on page 14 of the slip opinion.

Chief Judge Stephens: And then on page 15 we find:

"We think that the United States Gypsum Company should be required to license all its patents in the gypsum products field to all applicants on equal terms. Whether [fol. 892] the term for compulsory licensing of new patents is to be five years, or for a longer period with the privilege to the appellees to move for a limitation for such new patents, as provided in the suggested decree, Article VI, Section 6, we leave to the District Court. That court should provide for its determination of a reasonable royalty either in each instance of failure to agree or by an approved form or by any other plan in its discretion."

That seems to answer my question with reference to the power of the court to fix royalties.

My Spray: Yes, I think so.

Chief Judge Stephens: The Supreme Court has apparently told us we shall do so.

What is this Article VI, Section 6, and explain to us a little more fully than you have the provisions for compulsory licensing and the provisions in the decree with respect to the term of the licenses?

Mr. Spray: The court will recall that in its judgment of November 7, 1949, there was a provision which was designed to give these licensees an opportunity to get perfectly lawful licenses under the patents which they had been operating under pursuant to the licenses that they had had.

The Government objected to that as being too limited. To that end it will be recalled they were given a period of 90 days to make application for their new licenses.

[fol. 893] The Government objected to that as too limited, and contended in the Supreme Court that the provision for compulsory licensing with reasonable royalty should apply, not only to the patents which had been used in the old license agreements which were being declared illegal, null and void, but that it should also apply to patents relating to gypsum board which United States Gypsum might acquire in the future.

That was the Government's position before the Supreme Court.

And the Supreme Court agreed that there should be a modification to extend that to the new patents relating to gypsum board that might be issued in the future.

Now, what we have done in Article VI is to provide that the defendant, United States Gypsum Company, "is hereby ordered and directed to grant to each applicant making application therefor, but only in so far as it has the right to do so, a non-exclusive license to make, use and vend under any, some or all patents as hereinbefore defined, at a reasonable, non-discriminatory royalty or royalties therefor."

Now, turning back to the definition of patents, as hereinbefore defined, we find that it means:

"United States Letters Patent and applications for United States Letters Patent relating to gypsum board, its processes, methods of manufacture or use, now owned or controlled by defendant United States Gypsum Company and issued to, applied for or acquired by defendant [fol. 894] United States Gypsum Company within a period of five years from the date of this decree, including Letters Patent issued upon any of said applications, and continuations in whole or in part, renewals, reissues, divisions and extensions of any such Letters Patent or applications for Letters Patent."

In other words, the Government had asked that we be required to grant compulsory licensing at reasonable royalties, under all our patents now owned or hereafter owned with the right in United States Gypsum Company to come before the court at the end of five years and seek to have that provision modified, so that it would no longer apply to any future patents.

The Supreme Court had said in its opinion very clearly that it left entirely to the judgment of this court whether that should be for a five-year term, which automatically expired, without troubling the court with further action, or whether it should accept the Government's suggestion of having this apply to all our patents, with the right in us to come in at the end of five years and seek to have the decree modified.

This proceeds upon the former plan of having this com-

pulsory licensing at reasonable royalties apply to all our patents which we now have or which we may acquire within the next five years, or patents which may be issued and applications which are filed within the next five years.

But then the decree operates automatically, and it is [fol. 895] free of any other compulsory licenses.

Chief Judge Stephens: The next is on page 16:

"We disapprove the Government's suggestion that the burden of establishing the reasonableness of the requested royalty should be placed upon Gypsum by the decree. We do not decide where the burden of proof of value lies or who has the duty to go forward with the evidence in any particular instance."

That is taken care of, I assume, by leaving it to the court to fix the royalty in the event of disagreement?

Mr. Spray: That is right. There is no condition about burden of proof which was in the form of decree which the Government gave to the Supreme Court.

Chief Judge Stephens: "We disapprove the Government's suggestion, contained in Article VI (5) that the decree shall not be taken as preventing an 'applicant' (we construe this as meaning licensee) attacking the patent or as importing value to it. We see no occasion for this unusual provision and think it should be entirely omitted."

That is omitted?

Mr. Spray: That is omitted, yes, Your Honor.

Chief Judge Stephens: Then it reads:

"We approve the Government's suggested provisions for inspection of licensees' books and reports to licensor, substantially as set out in proposed Article VI (2) (c)."

What about that?

[fol. 896] Mr. Spray: That, Your Honor, will be found on page 8 of the proposed decree, section 2 of Article VI, starting about 10 lines down from the top of page 8. There is a paragraph that reads:

"Defendant United States Gypsum Company is hereby enjoined from including any restriction or condition what-

soever in any license or sublicense granted by it pursuant to the provisions of this article, except that (a) the license may be indivisible and non-transferable; (b) a reasonable, non-discriminatory royalty may be charged, which royalty may not be imposed upon or measured by patent-free products, processes or uses; (c)"—and this is the one specifically—

"provision may be made requiring licensee to keep full and accurate records of the gypsum board manufactured and sold by it under any such patent and requiring licensee to make appropriate reports to licensor as to the royalty due, but such reports shall not disclose the selling price of the board or disclose a breakdown of the size or thickness of the board sold."

I am sorry, Your Honor, that is one which was included, which is not directed specifically to the question which the court raised, but rather it is (d) which I am about to read:

"reasonable provision may be made for periodic inspection of the books and records of the licensee by an independent auditor, or by any person acceptable to the licensor and licensee, who shall report to the licensor only the [fol. 897] amount of royalty due and payable."

Now, that is, in substance, the provision which was contained in the Government's form of decree that it submitted to the Supreme Court.

Chief Judge Stephens: On pages 22 and 23?

Mr. Spray: On pages 22 and 23, and specifically at the top of page 23.

Chief Judge Stephens: Yes.

Mr. Spray: This section 2, as the court will see, is geared upon that provision of the Government's decree which it submitted here in March, and which it likewise had submitted to the Supreme Court, except that we felt that that was so limited that it would make it impossible for us really to make a normal lawful license without running into the court for permission.

Therefore, we have enlarged the provisions of section 2 so that we feel that we can negotiate a license without

constantly troubling this court for approval of the form of license, and specifically in that connection we have added a provision that:

"The license agreement shall be in writing signed by the parties thereto and shall to the extent that licensor has the right to do so, grant to the licensee the full right to make, use and vend the inventions and improvements described in the claims of each patent licensed, in the manu- [fol. 898] facture, sale or use of gypsum board, for the full term of the patent and any renewal, reissue, division, or extension thereof, and may contain the provisions hereinabove set forth and such other lawful provisions as may be agreed upon between the parties thereto and which are not in conflict with any of the provisions of this decree."

Now, with that it would seem to us that if we had some special situation we could work it out, so long as we had a lawful provision, and so long as it did not conflict with any of the provisions of the other articles or sections of the decree.

Chief Judge Stephens: Since you read the (c) on page 8, I would like to ask the answer to a question that has occurred to me as I was reading this decree last night:

"but such reports shall not disclose the selling price of the board, or disclose a breakdown of the size or thickness of the board sold."

I am just curious as to why that provision is contained.

Mr. Spray: Well, that was put in, frankly, to meet an objection which the Government raised. We had not put that provision in, and did not feel that it was necessary, because in making reports, these monthly reports, the licensee naturally would show his total selling price and his quantity and type of board and the royalty.

The Government had felt, and they felt that they were [fol. 899] supported by something said by the Supreme Court, that that might give the licensor some idea of what the selling price of each specific unit was. It would be a very rough average, I assure you, but when the Government raised the point we show no objection to

it, so we included the provision that while they must make the reports from which we can see whether we are getting our royalty, such reports were not to disclose the selling price of the board or to disclose a breakdown of size and thickness of the boards sold.

Chief Judge Stephens: What has the size or thickness to do with the selling price? Do you sell gypsum board by weight?

Mr. Spray: No, you sell it by board or lath. It might be wallboard, and it might be lath, and the wallboard might be of a thickness of 3/8 inch, or it might be half inch, or it might be a quarter inch.

Now, it was felt that if they broke it down as to the specific sizes, like your quarter-inch board and your three-eighths-inch board, and your half-inch board, and then show the quantity and what your total selling price was for your quarter-inch, and your three-eighths-inch, and your half-inch board, you might have a basis of determining what their selling price was.

Chief Judge Stephens: I see.

Mr. Spray: But as I say, it would be a very rough average, I assure you.

Chief Judge Stephens: Then the next one is on page 16: [fol. 900] "The Government seeks access to the records and personnel of the defendants for the purpose of advising itself as to the defendants' compliance with the judgment. See proposed Article VIII. Construing the article as we did in United States v. Bausch & Lomb Co., 321 U. S. 707, 725, n. 6, we think the request reasonable. This article, or one of similar import, should be included in the decree."

Where is that covered?

Mr. Spray: That is covered by Article VIII appearing on pages 11 and 12 of the proposed decree.

Chief Judge Stephens: The next one is likewise on page 16 of the Supreme Court opinion, paragraph (h): 'We have noted the Government's contentions in regard to the individual defendants, Avery, Knode, Baker, Ebsary and Tomkins, and its suggestion that Article III be modified so as to read "defendants" in the first line instead of "defendant companies." It is true that these defendants

signed the questioned agreements, but they were acting as officials and we think the provisions of Article V bar them from engagin- in similar conspiracies.'

Where is that covered?

Mr. Spray: This decree, in the first place, on page 4, Article II, section 1, defines defendant companies as meaning the corporate defendants.

Chief Judge Stephens: Where is that again?

Mr. Spray: Page 4, Article II, Section 1.

[fol. 901] Chief Judge Stephens: Oh, yes.

Mr. Spray: "'Defendant companies' shall mean all of the corporate defendants and Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company."

When you come to the adjudication in Article III on page 6, it is an adjudication that "The defendant companies have acted in concert".

Chief Judge Stephens: I see.

Mr. Spray: And when you come to Article V, dealing with the injunctive provisions, you will find that it runs against the defendant companies—it reads—"The defendant companies, and their respective officers, directors, [fol. 902] agents, employees, representatives, subsidiaries, and any person acting or claiming to act under"—and so forth, and it does not run against the individual defendants.

Chief Judge Stephens: The last item is on page 17:

"The Government asks that all costs be taxed against the defendant companies. Article IX, proposed decree; Article X, decree entered. We see no reason to interfere with the discretion of the trial court in this matter."

Mr. Spray: That is covered on page 12, Article IX, and that follows the judgment of November 7, 1949, except that we have now received from the Government the amount of what those costs are, and subsequently we have stated them in a dollars and cents fashion, rather than percentage-wise, as we stated them last time.

Chief Judge Stephens: They carry out the previous judgment of the court, however, in terms of dollars and cents?

Mr. Spray: They do, Your Honor.

Chief Judge Stephens: Thank you, Mr. Spray.

Does the Government have any comment upon any of these provisions? Are you satisfied that this decree does conform with the direction of the Supreme Court, Mr. Knuff?

Mr. Knuff: Yes, sir.

Chief Judge Stephens: Mr. Johnston, you were a little tardy this morning. Will you be heard, please, with respect to Samuel Gloyd and the Texas Cement Plaster Company.

[fol. 903] Mr. Johnston: Gentlemen of the court, I just came by to pay my respects to the court. I am out of the case now, to the tune of $14.00, and we are out of business, and I was coming this way, and just came by to sit in at the last session.

Chief Judge Stephens: You are not in a position either to approve or disapprove of this decree, then?

Mr. Johnston: None whatsoever.

Chief Judge Stephens: Is Mr. Gloyd still living?

Mr. Johnston: He is living, but he is in the advance stage of a term the doctors put in their report, the court could not find the definition in the dictionary.

Chief Judge Stephens: Mr. Knuff, we suggest that perhaps you had better present a formal order for the signature of the court with respect to the dismissal of the case as against the defendant Hartley.

Mr. Knuff: I will be glad to do that, Your Honor.

Chief Judge Stephens: Do any of the other defendants' counsel wish to be heard from, or the Government? If not, we will take a recess for ten minutes.

Mr. Spray: Pardon me, Your Honor, but may I just say a word before you recess?

Chief Judge Stephens: Yes.

Mr. Spray: On the matter of this decree, I would call attention to the fact that this form of interim license agreement is referred to in Article VI, and it is provided there [fol. 904] that it is this day a form approved by the court, so it may be that there should be some——

Chief Judge Stephens: Some comment upon the form of the license?

Mr. Spray: (continuing)—some comment, if neces-

sary. At least, I thought there should be some formal approval of that form of license, if the court determines to approve this decree.

Chief Judge Stephens: Wouldn't the approval of the decree, as drawn, involve or imply equivalent to the license?

Mr. Spray: The material point is that it should be filed on the same date that the decree, when signed, is filed, because it is referred to.

Chief Judge Stepehsn: Where do you refer to the license in the decree?

Mr. Spray: It will be in Article VI, section 4.

Chief Judge Stephens: On what page?

Mr. Spray: On page 10, where it is provided that:

"Where an application has been made to this court for the determination of a reasonable royalty under paragraph 3 of this Article, the applicant or the United States Gypsum Company may apply to the court to fix an interim royalty rate pending final determination of what constitutes a reasonable royalty. If the court fixes such interim royalty rate, United States Gypsum Company shall then issue and [fol. 905] the applicant shall accept an interim license agreement effective as of the date of the applicant's last written request for such license hereunder and in the form this day filed herein and approved by the court."

That is the language that I was specifically referring to.

Chief Judge Stephens: This is the proposed license agreement?

Mr. Spray: Yes, that is handed up with the decree.

Chief Judge Stephens: If the decree is signed, do you not think that that language that you have just used would be equal to approval?

Mr. Spray: I think it would be sufficient, provided it is shown in the court record that that form is filed as of the same day as the entry of the decree.

Chief Judge Stephens: Very well. Do you have anything else?

Mr. Spray: Do you have something about the decree?

Mr. Miller: I was going to ask one question about the decree, and that is the suggestion made by the court in regard to agreeing with the Government as to the language

providing in the alternative for an application to a judge of the District Court of the District of Columbia for determination of a reasonable royalty.

Now, how does the court want that to be handled?

Chief Judge Stephens: We are going to discuss that dur-
[fol. 906] ing our recess.

Judge Jackson: We will discuss it, and you fellows discuss it among yourselves while we are in recess.

Chief Judge Stephens: I am not sure that it is feasible, just thinking out loud for the moment, because this is a three-judge expediting court, specially constituted, and it may be that it is not feasible to substitute another court. We simply have to await the eventualities of the future to determine what would happen in the event one of us is not available through retirement, death or otherwise. We will discuss it in chambers and come out and give you an informal chance to discuss it again. Perhaps we will have to leave it as it is.

We will recess for ten minutes.

(Short recess.)

Chief Judge Stephens: We have concluded, gentlemen, that we will only make one amendment in the phrasing of the decree, and that is on page three, in the second paragraph, which we will change to read as follows:

"Upon remand, this court, after ordering counsel for the plaintiff and for the defense to submit forms of decree in conformity with the Supreme Court opinion and after considering such forms had modified its decree of November 7, 1949, in accordance with the Supreme Court's opinion of November 27, 1950."

We have stricken out the words "hearing arguments of
[fol. 907] the respective parties with respect thereto," because we did not hear arguments.

Otherwise, we will leave the decree as drawn.

We have concluded that it is not wise to attempt to put in a provision with respect to an alternative or substitute court. This is the court which is constituted under the Expediting Act, to try this case, and it is the duty of this court, so long as it is possible for it to do so, to administer

and enforce and interpret the decree when necessary, and we will attempt to do it so long as we are able and available, and we will have to take a chance on the future. It would be unusual and anomalous, and perhaps we had better not try to do it.

We approve the form of the license agreement and order it filed. That is to say, the proposed interim license agreement, which is attached to the proposed decree.

We wish to inquire, finally, this case has been extended and controversial and difficult, and so far as possible we would like to avoid future litigation, such as may unavoidably arise, and out of the questions of enforcement, interpretation and application of the decree, we would like to be satisfied that both the defendants and the Government are themselves satisfied with the present form of the decree as proposed for our signature this morning.

We therefore ask the Government, first, are you satisfied, [fol. 908] Mr. Steffen, and Mr. Knuff, that this proposed form of decree is fair and effective in the protection of the rights and interests of the Government?

Mr. Knuff: I am, Your Honor.

Chief Judge Stephens: Are you also, Mr. Steffen?

Mr. Steffen: Yes, Your Honor.

Chief Judge Stephens: With respect to the defendants, are the defendants satisfied that this proposed form of decree is fair and effective in the protection of the rights and interests of the defendants?

Mr. Spray: Speaking on behalf of the United States Gypsum Company, yes, sir, Your Honor, and the individuals Sewell L. Avery and Oliver M. Knode.

Chief Judge Stephens: Mr. Finck.

Mr. Finck: Yes, Your Honor, on behalf of National and Mr. Baker.

Chief Judge Stephens: Mr. Wanless.

Mr. Wanless: On behalf of The Celotex Corporation, yes, sir.

Chief Judge Stephens: And Mr. Johnston, I think you stated you are not authorized to represent anyone.

Is there anyone else who wishes to be heard?

Mr. Miller: On behalf of Certain-Teed Products, I wish to state that the decree has our approval.

Chief Judge Stephens: Now, we ought to get this all done [fol. 909] now, if we can, and sign the decree, and have the case terminated.

This one page needs to be rewritten to make the amendment on page three. I think that can be done by Judge Garrett's secretary.

We understand now that these two forms which we find on the bench this morning are identical with the one, Mr. Spray, which I have been reading from this morning. Will you come up and look at this? This is the one that I have been dealing with and reading from this morning. These two are identical?

Mr. Spray: Yes, sir, they are exactly the same.

Chief Judge Stephens: Very well.

We will have that page rewritten, and I suppose counsel will make changes in their own copies, and then get official copies from the clerk, if necessary.

We will order the license agreement, which is attached to the decree, filed with the decree and made a part of it, and enrolled in the clerk's office, so that it will be official.

We will now take another recess for ten minutes while the page is being written, and then resume and hand the signed decree to the clerk, and the proceeding will be terminated.

(Short recess.)

Chief Judge Stephens: The court has executed the decree, and with the attached license agreement, which has the approval of the court, and it is now handed to the clerk.

[fol. 910] Mr. Marshal, will you now hand this to the Clerk? And here are some extra copies. We have one for each of the judges, and since each of these now contains the corrected page, you may have them, counsel, for as far as they will go around. Then if you do not have enough you will have to make copies of them for yourselves.

Will you hand these also to counsel, Mr. Marshal.

Now, if there is nothing further——

Mr. Spray: I just wanted to say, Your Honor, and I am sure that I speak for all of the attorneys for the defense in saying that we would not want this last hearing to close

without an expression of appreciation to the court for their patient, courteous and judicious attention to very complex, legal and factual matters. I think this case stands so far as I am concerned.

We want you to know that we thoroughly appreciate the time which we know has been expended in this case.

Chief Judge Stephens: Thank you, Mr. Spray, for thus expressing yourself, and I thank the other members of the counsel for the defendants.

Mr. Knuff: May it please the court, the Department has asked me to express to the members of the court, both individually and collectively, its sincere thanks and appreciation for the time and the effort and the consideration that the judges comprising this court, have given to this case. [fol. 911] Speaking for myself, I want the members of this court to know that I join the Department in that expression of thanks and appreciation.

Chief Judge Stephens: Thank you, Mr. Knuff.

Mr. Steffen: May it please the court, I also want to express my complete appreciation for the patience and good temper of the court throughout this matter.

Chief Judge Stephens: We are grateful to counsel for both the Government and defendants for this expression of courteous respect for the manner in which this case was handled, and we in turn want to thank counsel, both for the Government and the defendants, for their diligence and help to the Court, and their courtesy throughout the trial.

It has been a pleasure to try this very important and interesting case, and we are sorry the proceeding is now terminated, but all things must come to an end, including law suits.

Perhaps we will hear you further about royalties.

We wish you well, both personally and officially.

(Whereupon, at 12:00 o'clock noon, the court adjourned.)

[fol. 912] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

[Title omitted]

PETITION OF NATIONAL GYPSUM COMPANY FOR ORDERS, MODIFICATIONS OR DIRECTIONS FOR THE ENFORCEMENT, CONSTRUCTION OR CARRYING OUT OF THE FINAL DECREE OF MAY 15, 1951—Filed March 25, 1953

This petition is in two parts—Claims I and II.

In Claim I, petitioner claims that, on the basis of the Final Decree of May 15, 1951 (hereinafter referred to as "the Final Decree") and the record in this Civil Action No. 8017, petitioner is entitled to the relief requested in its petition. Except for paragraphs 9 to 18, the allegations in Claim I set forth facts which are undisputed and which appear in the record or in the Final Decree. Paragraphs 9 to 18 relate to the claims of United States Gypsum Company (hereinafter referred to as "USG"), made since the [fol. 913] entry of the Final Decree, for payment for the alleged use of certain of USG's patents, for the period prior to May 15, 1951.

In Claim II, petitioner alleges facts extrinsic to the record herein, which petitioner asserts entitles it to substantially the same relief as that prayed for under Claim I.

Petitioner's claim under Claim II need be determined by the Court only if the relief sought under Claim I is denied.

Claim I

1. Petitioner, National Gypsum Company (hereinafter referred to as "National"), is a defendant in the above-entitled action. USG is also a defendant in the above-entitled action.

2. Article X of the Final Decree provides as follows:

> "Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter

become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith."

This petition is made pursuant to Article X of the Final Decree.

3. On August 15, 1940, the plaintiff in the above-entitled action, United States of America (hereinafter referred to as "the Government"), filed its complaint herein against USG, patentee, and its licensees, six other manufacturers of gypsum products, and others, charging violations of the Sherman Act. The complaint alleged that USG and the six other manufacturers had entered into, and were engaged in, an unlawful combination which controlled the manu- [fol. 914] facture, distribution and selling prices of gypsum products; and had effectuated the control by means of substantially uniform patent license agreements between USG and the manufacturing defendants, including the license agreement dated October 17, 1929, between USG and National.

4. Under the USG-National license agreement of October 17, 1929, National agreed to pay USG, from the date of the license, royalties at different rates for defined periods of the license. Under said agreement, National agreed to pay USG an amount equivalent to one percent (1%) of the National selling price on all gypsum wallboard and plaster board manufactured and sold by it between July 8, 1941 and the date of the expiration of the last expiring patent issued upon certain applications then pending in the U. S. Patent Office, including an application filed by Carlisle K. Roos, entitled "Cementitious Material", which application was granted on October 8, 1935, by the issuance of United States Patent No. 2,017,022, to USG, as assignee of said Roos application.

5. On June 15, 1946, after the Government had concluded its evidence in chief at the trial, the District Court granted defendants' motion to dismiss, on the ground that no right to relief had been shown. (67 F. Supp. 397.) The District Court entered judgment dismissing the complaint,

and filed its findings of fact and conclusions of law on August 5, 1946.

6. On March 8, 1948, the Supreme Court reversed the holding of the District Court, its findings and conclusions and held *inter alia* that the license agreements between USG and its manufacturing licensees, including the license agreement between USG and National, were unlawful, because under such licenses ". . . the industry is completely regimented, the production of competitive unpatented products suppressed, a class of distributors squeezed out, and prices on unpatented products stabilized." (*U. S. v. U. S. Gypsum Co.*, 333 U. S. 364, 400). The Supreme Court further held that "the provision in the license [fol. 915] contracts that royalties should be paid on the production of unpatented board is strongly indicative of an agreement not to manufacture unpatented board, and the testimony of witnesses is ample to show that there was an understanding, if not a formal agreement, that only patented board would be sold. Such an agreement in purpose and effect increased the area of the patent monopoly and is invalid." (p. 397)

7. After remand of this action to the District Court, the Government moved for summary judgment, which the District Court granted, and then entered judgment in conformity therewith on November 7, 1949. The Government and defendant USG and its associated individual defendants thereafter appealed to the Supreme Court, and said judgment was stayed pending these appeals. USG's prime complaint on its appeal was that summary judgment had been entered in denial of its right to present direct evidence. USG asserted, on this appeal, that its offer of proof would establish that its activities had been entirely lawful. The Government appealed on the ground that the District Court decree was inadequate to cure the ill effects of the illegal conduct of defendants.

8. On May 29, 1950, the appeal of USG and its associated individual defendants was dismissed by the Supreme Court (339 U. S. 959). On the Government's appeal, the Supreme Court held, on November 27, 1950, that the District Court's decree was inadequate to "cure the ill effects of the illegal conduct" (340 U. S. 76, 88), and ordered that

the District Court modify its decree to broaden it in several respects. The District Court modified its prior decree in accordance with the opinion of the Supreme Court of November 27, 1950, and entered the Final Decree herein on May 15, 1951. Article IV of the Final Decree adjudged "unlawful under the anti-trust laws of the United States and illegal, null and void" each of the license agreements between USG and its manufacturing licensees, including the USG-National agreement of October 17, 1929.

[fol. 916] The term "unlawful license" as used hereafter in this petition means each of the license agreements adjudicated unlawful by Article IV of the Final Decree, and listed in Article II 5 of the Final Decree. The term "misused patents" as used hereafter in this petition means all patents licensed by USG under any one or more unlawful licenses.

9. National paid all royalties due under its unlawful license with USG of October 17, 1929, until March 10, 1948, when royalties for the month of February 1948 would have become due, at which time National ceased paying royalties because of the Supreme Court's holding, on March 8, 1948, that said license agreement was unlawful. National thereafter paid no royalties to USG under said unlawful license, until the entry of the Final Decree on May 15, 1951. Some other defendant licensees, including Ebsary Gypsum Company, Inc. (hereinafter referred to as "Ebsary"), Newark Plaster Company (hereinafter referred to as "Newark"), and Certain-Teed Products Corporation (hereinafter referred to as "Certain-Teed"), also failed to pay royalties to USG under their unlawful licenses from approximately February 1 or March 1, 1948 to May 15, 1951.

Some time after May 15, 1951, National and Certain-Teed entered into new agreements with USG, retroactive to May 15, 1951, in which USG licensed National and Certain-Teed under said Roos Patent No. 2,017,022. National and Certain-Teed duly paid all royalties under their respective agreements until the expiration date of said patent. Ebsary and Newark, however, did not enter into new license agreements with USG after May 15, 1951.

10. USG has instituted actions in various Federal District Courts, other than this District Court, to enforce the unlawful licenses made with National, Ebsary, Newark and

Certain-Teed, notwithstanding that each said license is "adjudged unlawful under the anti-trust laws of the United States and illegal, null and void" by Article IV of the Final Decree of this Court.

[fol. 917] In each of these actions, USG seeks to recover the royalties alleged to be due under said unlawful licenses for the period from February 1 or March 1, 1948 to May 15, 1951. Under other counts set forth in each of these actions, USG seeks to recover on alternative legal theories, including infringement, the same amount as is claimed to be due as royalties under each said unlawful license. In each of these actions, infringement is alleged of misused patents for the period from February 1, March 1, or April 1, 1948 to May 15, 1951, except that infringement of some misused patents is also alleged to have continued beyond May 15, 1951 in the actions against Ebsary and Newark, and additional payment is requested therefor. The actions against National, Ebsary, Newark and Certain-Teed are hereinafter more fully described in paragraphs 11 to 14 of this petition.

11. On January 28, 1953, USG commenced an action in the United States District Court for the Northern District of Iowa against National, claiming royalties under said unlawful license in the amount of $1,600,000, for the period from February 1, 1948 to May 15, 1951. A copy of said complaint is attached hereto as *Exhibit A*. Under the first count of said complaint, USG seeks to enforce the provision in said unlawful license with National under which National agreed to pay one percent (1%) of the National selling price on all of the gypsum board made and sold by it, for the period from February 1, 1948 to May 15, 1951. Under an alternative infringement count of said complaint, USG alleges infringement of only one patent, misused patent Roos No. 2,017,022, for the period from February 1, 1948 to May 15, 1951.

12. On or about February 27, 1953, USG commenced an action in the United States District Court for the Southern District of New York against Ebsary, claiming royalties under its unlawful license with Ebsary, in the amount of $100,000, for the period from March 1, 1948 to May 15, 1951. Said complaint is substantially in the same form as that filed against National, and a copy of said com-

[fol. 918] plaint is attached hereto as *Exhibit B.* Under the alternative infringement counts of said complaint, USG alleges infringement of three patents, misused patents Roos Nos. 2,017,022, 2,079,338 and 2,080,009, for the period from March 1, 1948 to May 15, 1951. Infringement of the above misused patents, and also misused patent Roos No. 2,044,-401, is alleged to have continued beyond May 15, 1951, and additional payment is requested therefor.

13. On or about February 27, 1953, USG commenced an action in the United States District Court for the District of New Jersey against Newark, claiming royalties under its unlawful license with Newark, in the amount of $120,000, for the period from February 1, 1948 to May 15, 1951. Said complaint is substantially in the same form as that filed against National, and a copy of said complaint is attached hereto as *Exhibit C.* Under the alternative infringement counts of said complaint, USG alleges infringement of three patents, misused patents Roos Nos. 2,017,022, 2,079,338 and 2,080,009, for the period from February 1, 1948 to May 15, 1951. Infringement of the above misused patents, and also misused patent Roos No. 2,044,401 is alleged to have continued beyond May 15, 1951, and additional payment is requested therefor.

14. On or about March 18, 1953, USG commenced an action in the United States District Court for the Northern District of Iowa againt Certain-Teed, claiming royalties under its unlawful license with Certain-Teed in the amount of $650,000, for the period from April 1, 1948 to May 15, 1951. Said complaint is substantially in the same form as that filed against National, and a copy of said complaint is attached hereto as *Exhibit D.* Under the first count of said complaint, USG seeks to enforce the provision in said unlawful license with Certain-Teed under which Certain-Teed agreed to pay one percent (1%) of the Certain-Teed selling price on all of the gypsum board made and sold by it, for the period from April 1, 1948 to May 15, 1951. Under an alternative infringement count of said complaint, USG [fol. 919] alleges infringement of only one patent, misused patent Roos No. 2,017,022, for the period from April 1, 1948 to May 15, 1951.

15. On information and belief, beginning approximately July 1952, USG has asserted claims against The Celotex Corporation, for royalties under its unlawful license with Celotex, for the period from February 1 or March 1, 1948 to May 15, 1951. USG has also asserted claims for payment for the use of misused patents for the period from February 1, 1948 to May 15, 1951 against Kaiser Gypsum Company and perhaps others. A copy of USG's notice of infringement to Kaiser Gypsum Company, dated July 25, 1952, and correspondence relevant thereto between counsel for USG and counsel for Kaiser Gypsum Company is attached hereto as *Exhibit E*.

16. In essence, USG's suits in other District Courts against National, Ebsary, Newark and Certain-Teed constitute an attempt to obtain the royalties promised under said unlawful licenses, or the equivalent moneys in infringement damages. However, the Final Decree in adjudicating said unlawful licenses as null and void thereby barred USG from enforcing in any manner, directly or indirectly, or under any legal theory, any provision of said unlawful licenses. USG's suits in other District Courts against each of the above companies therefore constitute a circumvention of the Final Decree of this Court.

17. The question of USG's right to collect royalties under its misused patents was in issue before this Court. As a matter of law, USG's misuse of its patents resulted in suspension of its right to enforce its misused patents until such time as it purged its misuse. Before entry of the Final Decree, USG should have applied to this Court for an opportunity to show that it had abandoned its misuse, and that the evil consequences thereof had been dissipated so that it might thereafter enforce its misused patents. USG's failure to so apply now bars it from [fol. 920] claiming compensation for use of its misused patents prior to May 15, 1951.

18. This Court has primary jurisdiction over the question of whether USG's claim for compensation for use of its misused patents for any period prior to the entry of the Final Decree herein is barred as a matter of law on the basis solely of the record and Final Decree herein. Unless this Court exercises its primary jurisdiction over this mat-

ter to construe and enforce the Final Decree of this Court, several different district courts, without intimate knowledge of the voluminous record in this cause, will be compelled to construe this Court's Final Decree.

CLAIM II

19. National repeats and realleges as part of Claim II each and every allegation contained in Paragraphs 1 to 18 of Claim I of this petition, with the same effect as if fully set forth herein.

20. Prior to the entry of the Final Decree, USG, although knowing that some of its licensees had failed to pay royalties under the unlawful licenses, nevertheless did not request this Court to adjudicate the question of whether these royalties were owing to USG, nor did it submit any provision in its proposed Final Decree requiring the defendant-licensees to pay said royalties under the unlawful licenses.

21. USG has not shown that its misuse of its patents has been terminated and the effect of that misuse dissipated in the period between February 1, 1948 and May 15, 1951. On the contrary, it appears that during said period USG continued to misuse its patents, and the effects of such misuse were not dissipated until at least May 15, 1951, the date of entry of the Final Decree, by reason of the following, among others:

A. USG did not during the period from February 1, 1948 to May 15, 1951, abandon any of the [fol. 921] illegal patent practices charged in the Government's complaint and proved at the trial.

B. USG's patent licensing, sales, pricing and distribution policies were conducted at all times between February 1, 1948 and May 15, 1951, in accordance with the terms of the unlawful licenses.

C. USG continued, until at least May 15, 1951, to collect royalties from some of the defendant-licensees, in accordance with the terms of their unlawful licenses.

D. USG continued, until at least May 15, 1951, to collect royaylties on unpatented as well as patented gypsum products.

E. USG continued, until at least May 15, 1951, to sell and distribute its gypsum products under the same terms and conditions as those prescribed in its unlawful licenses.

F. USG continued, until at least May 15, 1951, to refrain from selling gypsum products to jobbers.

G. USG failed and refused, until at least May 15, 1951, to grant licenses under its misused patents to all applicants on lawful and unrestricted terms and conditions.

H. USG continued to assert, until at least May 29, 1950 (339 U. S. 960), that its unlawful licenses with defendant-licensees were legal in every respect.

[fol. 922] PRAYER

Wherefore, petitioner prays

WITH RESPECT TO CLAIM I:

I. That the Court restrain USG, until this petition is finally determined, from taking any steps in furtherance of any action by it against National, or from commencing any new action against National, in which USG claims payment for any period of time prior to May 15, 1951, for the use of any misused patent.

II. That the Court direct USG to file its answer to this petition.

III. That the Court, on the basis of the record already made in this Civil Action No. 8017, modify its Final Decree by ordering and directing USG to discontinue and dismiss, with prejudice to USG, its pending action against National.

IV. That the Court, on the basis of the record already made in this Civil Action No. 8017, modify its Final Decree by permanently enjoining USG from asserting any claim against National for payment for the use of its misused patents, and from instituting or threatening to institute, or maintaining or continuing any action for payment for the use of any misused patent, for any period of time prior to May 15, 1951.

V. That the petitioner have such further and general relief as may be proper.

WITH RESPECT TO CLAIM II:

I. That the Court restrain USG, until this petition is finally determined, from taking any steps in furtherance of any action by it against National, or from commencing any new action against National, in which USG claims payment for any period of time prior to May 15, 1951, for the use of any misused patent.

[fol. 923] II. That the Court direct USG to file its answer to this petition.

III. That the Court, on the basis of the record already made in this Civil Action No. 8017, and on the basis of this petition, other pleadings and all evidence taken pursuant thereto, modify its Final Decree by ordering and directing USG to discontinue and dismiss, with prejudice to USG, its pending action against National.

IV. That the Court, on the basis of the record already made in this Civil Action No. 8017, and on the basis of this petition, other pleadings and all evidence taken pursuant thereto, enjoin USG from asserting any claim against National for payment for the use of its misused patents, and from instituting or threatening to institute, or maintaining or continuing any action for payment for the use of any misused patent, for any period of time prior to May 15, 1951.

V. That the petitioner have such further and general relief as may be proper.

March 25, 1953.

Finck & Huber, Esqs., Attorneys for Petitioner,
804 Liberty Bank Building, Buffalo 2, New York
By (S.) Elmer E. Finck.

Rosenman Goldmark Colin & Kaye, Esqs., 575 Madison Avenue, New York 22, New York, Of Counsel.

Seymour Krieger, 514 Wyatt Building, Washington 5, D. C.

[fols. 924-925] *Duly sworn to by L. R. Sanderson. Jurat omitted in printing.*

[fol. 926] EXHIBIT A TO PETITION

IN THE UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF IOWA, CENTRAL DIVISION
Civil Action No. 564

Filed Jan. 28, 1953. Lee McNeely, Clerk, By (S.) Jane Sullivan, Deputy Clerk.

UNITED STATES GYPSUM COMPANY, an Illinois corporation,
Plaintiff,

vs.

NATIONAL GYPSUM COMPANY, a Delaware corporation,
Defendant

COMPLAINT

Plaintiff, United States Gypsum Company, for complaint against defendant, National Gypsum Company, alleges as follows:

COUNT I

FOR A FIRST SEPARATE AND DISTINCT CLAIM:

1. Plaintiff, United States Gypsum Company (referred to hereinafter as U. S. Gypsum), is a corporation duly organized and existing under and by virtue of the laws of the State of Illinois, having its principal place of business at Chicago, Illinois. U. S. Gypsum has qualified as a foreign corporation to do business in the State of Iowa and for many years has been and is doing business within the Northern District of Iowa.

2. Defendant, National Gypsum Company (referred to hereinafter as National), is a corporation duly organized [fol. 927] and existing under and by virtue of the laws of the State of Delaware. National has qualified as a foreign corporation to do business in the State of Iowa and has a regular and established place of business in Webster County, State of Iowa. For many years National has been and is doing business with the Central Division of the Northern District of Iowa.

3. This Court has jurisdiction by reason of the fact that plaintiff, U. S. Gypsum, is a corporation incorporated under the laws of the State of Illinois, and that defendant, National, is a corporation incorporated under the laws of the State of Delaware, and that the matter in controversy exceeds, exclusive of interests and costs, the sum of Three Thousand Dollars ($3,000). This civil action is being brought in a judicial district in which defendant is a resident within the meaning of Section 1391 of Title 28, U. S. Code.

4. On October 17, 1929, U. S. Gypsum, as Licensor, and National, as Licensee, entered into a license agreement under the terms of which, and for the considerations therein set forth, National was licensed to make, use and sell gypsum wallboard, gypsum lath, gypsum sheathing and other similar boards (all of which are referred to collectively hereinafter as gypsum board) embodying or made by the use of the inventions set forth and claimed in those certain Letters Patent and Applications for Letters Patent described in said agreement, and including United States Letters Patent thereafter granted upon any of said Applications, for the full term of said Letters Patent, all as in said license agreements set forth, a true copy of which agreement is attached hereto as Exhibit A to this Count and made a part hereof.

5. On October 8, 1935, Letters Patent of the United States No. 2,017,022, relating to cementitious material, was duly and legally granted to U. S. Gypsum as assignee on Application Serial No. 733,197 theretofore filed by Carlisle K. Roos on August 20, 1924, which application was included [fol. 928] in the said license agreement of October 17, 1929, and said Letters Patent No. 2,017,022 duly became Letters Patent under said license so granted to National.

6. It was provided in said license agreement that for the privilege of using said patents National would pay to U. S. Gypsum certain amounts as therein set forth, among them an amount, referred to therein as a license fee or royalty, equivalent to one per cent (1%) of National's selling price of gypsum board manufactured and sold by it between July 8, 1941, and the date of the expiration of the last to expire of any patent granted or issued on said Ap-

plication Serial No. 733,197, upon which Application said Letters Patent No. 2,017,022 was issued as aforesaid on October 8, 1935.

7. Commencing with the license fees or royalties under said license agreement for the month of February, 1948 (payable under said license agreement on or before the 20th day of March, 1948) and continuing to May 15, 1951, National failed and refused to pay any such license fees or royalties to U. S. Gypsum, although during the whole of said period National continued under its said license to manufacture and sell gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022.

8. There is now due and payable to U. S. Gypsum by National as license fees or royalties under said license agreement an amount equal to one per cent (1%) of the selling price of National of all of said gypsum board so manufactured and sold by it between February 1, 1948, and May 15, 1951, embodying or made by the use of inventions disclosed and claimed in said Letters Patent No. 2,017,022.

9. Pursuant to the provisions of said license agreement of October 17, 1929, National as such Licensee, during the period commencing on February 1, 1948, and ending on May 14, 1951, manufactured and sold great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. [fol. 929] 2,017,022 and sold the same for an amount aggregating, to-wit: One Hundred Sixty Million Dollars ($160,000,000), for which said National has become indebted to U. S. Gypsum for license fees or royalties aggregating One Million Six Hundred Thousand Dollars ($1,600,000), which said license fees and royalties said National has wholly failed and refused to pay in whole or in part, although often requested so to do.

Count II

For a Second Separate and Distinct Claim

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1, 2, 3, 4, 5 and 6 of Count I of the Complaint with like effect as if herein fully set forth.

2. On or about February 1, 1948, National discontinued the payment of said license fees or royalties but nevertheless continued under its said license to manufacture and sell gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022. U. S. Gypsum and National each having determined to discontinue compliance with the provisions of said license agreement, agreed, and it was so understood between them, that National would account for and pay to U. S. Gypsum under said license agreement the said license fee or royalty of one per cent (1%) of National's selling price for gypsum board actually manufactured and sold by it embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022. It was further understood and agreed that no further performance would be required by either party under said license agreement except that National could continue to use said patents thereunder and would account for and pay to U. S. Gypsum all such license fees or royalties for the actual use of said patents as aforesaid. National continued to so manufacture and sell said gypsum board under [fol. 930] its said license until May 15, 1951, and thereupon became and now is indebted to U. S. Gypsum in an amount therefor equal to one per cent (1%) of its selling price of all such gypsum board manufactured and sold by it between February 1, 1948, and May 15, 1951, embodying or made by the use of the inventions and improvements disclosed and claimed in said Letters Patent No. 2,017,022.

3. National, during the period commencing February 1, 1948, and ending May 14, 1951, manufactured and sold great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022 and sold the same for an amount aggregating, to-wit: One Hundred Sixty Million Dollars ($160,000,000) for which National has become indebted to U. S. Gypsum for license fees or royalties in an amount aggregating One Million Six Hundred Thousand Dollars ($1,600,000), which said license fees or royalties so payable as aforesaid National has wholly failed and refused to pay in whole or in part, although often requested so to do.

Count III

For a Third Separate and Distinct Claim:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1, 2 and 3 of Count I of the Complaint with like effect as if herein fully set forth.

2. On October 17, 1929, U. S. Gypsum, as Licensor, and National, as Licensee, entered into a license agreement under the terms of which, and for the considerations therein set forth, National was licensed to make, use and sell gypsum wallboard, gypsum lath, gypsum sheathing and other similar boards (all of which are referred to collectively hereinafter as gypsum board) embodying or made by the use of the inventions set forth and claimed in those certain Letters Patent and Applications for Letters Patent described in said agreement, and including United States [fol. 931] Letters Patent thereafter granted upon any of said Applications, for the full term of said Letters Patent, all as in said license agreement set forth.

3. On October 8, 1935, Letters Patent of the United States No. 2,017,022, relating to cementitious material, was duly and legally granted to U. S. Gypsum as assignee on Application Serial No. 733,197 theretofore filed by Carlisle K. Roos on August 20, 1924, which application was included in said license agreement of October 17, 1929, and said Letters Patent No. 2,017,022 duly became Letters Patent under said license so granted to National.

4. It was provided in said license agreement that for the privilege of using said patents National would pay to U. S. Gypsum certain amounts as therein set forth, among them an amount, referred to therein as a license fee or royalty, equivalent to one per cent (1%) of National's selling price of gypsum board manufactured and sold by it between July 8, 1941, and the date of the expiration of the last to expire of any patent granted or issued on said Application Serial No. 733,197, upon which Application said Letters Patent No. 2,017,022 was issued as aforesaid on October 8, 1935.

5. On or about the 1st day of February, 1948, National repudiated its said license agreement of October 17, 1929,

and discontinued the payment of all license fees or royalties payable or to be paid thereunder and refused to be bound by any of the provisions thereof. U. S. Gypsum acquiesced in such repudiation and thereafter each of the parties thereto treated the license agreement as rescinded and no action was subsequently taken by either of them to comply with or to enforce any of the provisions thereof or to require the other to perform the same.

6. National then and there at its request made use of U. S. Gypsum's Letters Patent No. 2,017,022 in the manufacture and sale of gypsum board embodying or made by the use of the inventions disclosed and claimed therein and continued to so use the same until May 15, 1951. National [fol. 932] in consideration thereof promised to pay to U. S. Gypsum the reasonable value of the use of plaintiff's Letters Patent No. 2,017,022 from the time of such repudiation to May 15, 1951.

7. National, during such period, manufactured great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022, and sold the same for an amount aggregating, to-wit: One Hundred Sixty Million Dollars ($160,000,000). The fair and reasonable value of such use of said Letters Patent is not less than one per cent (1%) of National's said selling price of such gypsum board so manufactured and sold by it as aforesaid.

8. National thereupon became indebted to U. S. Gypsum in an amount aggregating, to-wit: One Million Six Hundred Thousand Dollars ($1,600,000), being the fair and reasonable value of the use of said Letters Patent, and being so indebted National, in consideration thereof, then and there promised U. S. Gypsum to pay it the said sum of money, on request. Yet National, though requested, has not paid the same or any part thereof to U. S. Gypsum but refuses so to do, to the damage of U. S. Gypsum of One Million Six Hundred Thousand Dollars ($1,600,000).

Count IV

For a Fourth Separate and Distinct Claim:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1,

2 and 3 of Count I of the Complaint with like effect as if herein fully set forth.

2. For that whereas the defendant National on the 28th day of January, 1953, in the Northern District of Iowa, Central Division, and elsewhere throughout the United States, was indebted to the plaintiff U. S. Gypsum in the sum of One Million Six Hundred Thousand Dollars ($1,600,000) for the use of the plaintiff's Letters Patent of [fol. 933] the United States No. 2,017,022 in the manufacture and sale of its gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent, during the period between February 1, 1948 and May 15, 1951 used and enjoyed by the defendant National at its request, and being so indebted, the defendant National, in consideration thereof, then and there promised the plaintiff U. S. Gypsum to pay it the said sum of money, on request. Yet the defendant National, though requested, has not paid the same, or any part thereof, to the plaintiff U. S. Gypsum, but refuses so to do; to the damage of the plaintiff U. S. Gypsum of One Million Six Hundred Thousand Dollars ($1,600,000).

Count V

For a Fifth Separate and Distinct Claim:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1 and 2 of Count I of the Complaint, with like effect as if herein fully set forth.

2. This Court has jurisdiction by reason of the fact that this is a civil action based upon United States Letters Patent No. 2,017,022, dated October 8, 1935, arising under the patent laws of the United States, as hereinafter more fully appears. This action is being brought in a judicial district where defendant has committed acts of infringement and has a regular and established place of business within the meaning of Section 1400 of Title 28, U. S. Code.

3. On October 8, 1935, Letters Patent of the United States No. 2,017,022, relating to cementitious material, was duly and legally granted to U. S. Gypsum as assignee on the Application Serial No. 733,197, theretofore filed by

Carlisle K. Roos on August 20, 1924, and all right, title and interest in said United States Letters Patent No. 2,017,022 remained in U. S. Gypsum during the entire life of said Letters Patent.

[fol. 934] 4. National has, within the last six years prior to the filing of this Complaint, and since the issuance of said Letters Patent, beginning on February 1, 1948, and continuing until May 15, 1951, without authority or permission of U. S. Gypsum, infringed said Letters Patent No. 2,017,-022 willfully and deliberately by making, selling and using within the United States, including the use and sale thereof within the Northern District of Iowa, Central Division, gypsum board (including but without limitation gypsum wallboard, gypsum lath, gypsum sheathing, and other similar boards containing a cellular core composed of cementitious material) embodying or made by the use of, the inventions disclosed and claimed in said Letters Patent.

5. National, during all periods pertinent to the Complaint, has had full knowledge of Letters Patent No. 2,017,022 and of the fact that all right, title and interest therein and thereto was in U. S. Gypsum, but despite said knowledge, National continued and persisted in such infringement, as aforesaid.

6. By reason of the aforesaid infringement, National has derived unlawful gains and profits which plaintiff would otherwise have received but for the aforesaid infringement, to the damage of the plaintiff in the sum of One Million Six Hundred Thousand Dollars ($1,600,000).

Wherefore, plaintiff, U. S. Gypsum, prays as follows:

(a) If the Court finds that defendant, National, is indebted to plaintiff, U. S. Gypsum, as alleged in either Counts I, II, III or IV hereof, that judgment be entered against said defendant for the sum of One Million Six Hundred Thousand Dollars ($1,600,000), together with interest and costs of this suit;

(b) Or in the alternative, if the Court finds that defendant, National, has infringed U. S. Gypsum's Letters Patent No. 2,017,022, as charged in Count V hereof, that judgment be entered against the defendant for due compensation for making, using, and selling said

invention, not less than a reasonable royalty therefor, [fol. 935] in the sum of One Million Six Hundred Thousand Dollars ($1,600,000), together with costs of this suit.

(S.) Cranston Spray, Robert C. Keck, MacLeish, Spray, Price & Underwood, 134 South LaSalle Street, Chicago 3, Illinois.

(S.) Arthur A. Olson, Thiess, Olson, Mecklenburger, vonHolst and Coltman, 77 West Washington Street, Chicago, Illinois.

(S.) Bert B. Burnquist, Burnquist, Helsell & Burnquist, State Bank Building, Fort Dodge, Iowa, Attorneys for the Plaintiff.

The agreement of October 17th, 1929, between United States Gypsum Company and National Gypsum Company, which is attached to Exhibit A, is omitted. Said agreement appears in the transcript of record of Civil Action No. 8017 commencing at p. 9384, and in the transcript of record in the Supreme Court of the United States, October Term, 1947, No. 13 at p. 4355.

[fol. 936] EXHIBIT B TO PETITION

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

Civil Action No. 83-83

UNITED STATES GYPSUM COMPANY, an Illinois corporation,
Plaintiff,

vs.

EBSARY GYPSUM COMPANY, INC., a New York corporation,
Defendant

COMPLAINT

Plaintiff, United States Gypsum Company, for complaint against defendant, Ebsary Gypsum Company, Inc., alleges as follows:

Count I

For a First Separate and Distinct Claim:

1. Plaintiff, United States Gypsum Company (referred to hereinafter as U. S. Gypsum), is a corporation duly organized and existing under and by virtue of the laws of the State of Illinois, having its principal place of business at Chicago, Illinois. U. S. Gypsum has qualified as a foreign corporation to do business in the State of New York and for many years has been and is doing business within said state.

2. Defendant, Ebsary Gypsum Company, Inc. (referred to hereinafter as Ebsary), is a corporation duly organized and existing under and by virtue of the laws of the State of New York.

[fol. 937] 3. This Court has jurisdiction by reason of the fact that plaintiff, U. S. Gypsum, is a corporation incorporated under the laws of the State of Illinois, and that defendant, Ebsary is a corporation incorporated under the laws of the State of New York, and that the matter in controversy exceeds, exclusive of interests and costs, the sum of Three Thousand Dollars ($3,000.00). This civil action is being brought in a judicial district in which defendant is a resident within the meaning of Section 1391 of Title 28, U. S. Code.

4. On October 18, 1929, U. S. Gypsum, as Licensor, and Ebsary, as Licensee, entered into a license agreement under the terms of which, and for the considerations therein set forth, Ebsary was licensed to make, use and sell gypsum wallboard, gypsum lath, gypsum sheathing and other similar boards (all of which are referred to collectively hereinafter as gypsum board) embodying or made by the use of the inventions set forth and claimed in those certain Letters Patent and Applications for Letters Patent described in said agreement, and including United States Letters Patent thereafter granted upon any of said Applications, for the full term of said Letters Patent, all as in said license agreement set forth, a true copy of which agreement is attached hereto as Exhibit A to this Count and made a part hereof.

5. On the dates hereinafter shown, the following Letters Patent of the United States were duly and legally granted to U. S. Gypsum as assignee on Applications Serial Nos. 733,197, 3,477 and 142,155, respectively, theretofore filed by Carlisle K. Roos, which Applications were included in the said license agreement of October 18, 1929:

Patent No. 2,017,022, issued October 8, 1935;
Patent No. 2,079,338, issued May 4, 1937;
Patent No. 2,080,009, issued May 11, 1937.

Said Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009 duly became Letters Patent under said license so granted to Ebsary.

[fol. 938] 6. It was provided in said license agreement that, for the privilege of using said patents, Ebsary would pay to U. S. Gypsum certain amounts as therein set forth, among them an amount, referred to therein as a license fee or royalty, equivalent to one per cent (1%) of Ebsary's selling price of gypsum board manufactured and sold by it between July 8, 1941 and the date of the expiration of the last to expire of any patent granted or issued on said Applications Serial Nos. 733,197, 3,477 and 142,155, upon which Applications said Letters Patent Nos. 2,017,022, 2,079,338, and 2,080,009 were issued as aforesaid on October 8, 1935, May 4, 1937 and May 11, 1937, respectively.

7. Commencing with the license fees or royalties under said license agreement for the month of March, 1948 (payable under said license agreement on or before the 20th day of April, 1948) and continuing to May 15, 1951, Ebsary failed and refused to pay any such license fees or royalties to U. S. Gypsum, although during the whole of said period Ebsary continued under its said license to manufacture and sell gypsum board embodying or made by the use of the inventions disclosed and claimed in one or more of said Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009.

8. There is now due and payable to U. S. Gypsum by Ebsary as license fees or royalties under said license agreement an amount equal to one per cent (1%) of the selling price of Ebsary of all of said gypsum board so manufactured and sold by it between March 1, 1948, and May 15, 1951, embodying or made by the use of inventions disclosed

and claimed in one or more of said Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009.

9. Pursuant to the provisions of said license agreement of October 18, 1929, Ebsary as such Licensee thereunder, during the period commencing on March 1, 1948, and ending on May 14, 1951, manufactured and sold great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in one or more of said Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009, and [fol. 939] sold the same for an amount aggregating, to-wit: Ten Million Dollars ($10,000,000) for which said Ebsary has become indebted to U. S. Gypsum for license fees or royalties aggregating One Hundred Thousand Dollars ($100,000), which said license fees and royalties said Ebsary has wholly failed and refused to pay in whole or in part, although often requested so to do.

Count II

For a Second Separate and Distinct Claim:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1, 2, 3, 4, 5 and 6 of Count I of the Complaint with like effect as if herein fully set forth.

2. On or about March 1, 1948, Ebsary discontinued the payment of said license fees or royalties but nevertheless continued under its said license to manufacture and sell gypsum board embodying or made by the use of the inventions disclosed and claimed in one or more of said Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009. U. S. Gypsum and Ebsary each having determined to discontinue compliance with the provisions of said license agreement, agreed, and it was so understood between them, that if Ebsary used any of said Letters Patent in the manufacture and sale of gypsum board, Ebsary would account for and pay to U. S. Gypsum under said license agreement the said license fee or royalty of one per cent (1%) of Ebsary's selling price for gypsum board actually manufactured and sold by it embodying or made by the use of the inventions disclosed and claimed in one or more of said Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009. It

was further understood and agreed that no further performance would be required by either party under said license agreement except that if Ebsary continued to use said patents thereunder it would account for and pay to [fol. 940] U. S. Gypsum all such license fees or royalties for the actual use of said patents as aforesaid. Ebsary continued to so manufacture and sell said gypsum board under its said license until May 15, 1951, and thereupon became and now is indebted to U. S. Gypsum in an amount therefor equal to one per cent (1%) of its selling price of all such gypsum board manufactured and sold by it between March 1, 1948, and May 15, 1951, embodying and claimed in one or more of said Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009.

3. Ebsary, during the period commencing March 1, 1948, and ending May 14, 1951, manufactured and sold great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in one or more of said Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009, and sold the same for an amount aggregating, to-wit: Ten Million Dollars ($10,000,000) for which Ebsary has become indebted to U. S. Gypsum for license fees or royalties in an amount aggregating One Hundred Thousand Dollars ($100,000), which said license fees or royalties so payable as aforesaid Ebsary has wholly failed and refuesd to pay in whole or in part, although often requested so to do.

Count III

For a Third Separate and Distinct Claim:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1, 2 and 3 of Count I of the Complaint with like effect as if herein fully set forth.

2. On October 18, 1929, U. S. Gypsum, as Licensor, and Ebsary, as Licensee, entered into a license agreement under the terms of which, and for the considerations therein set forth, Ebsary was licensed to make, use and sell gypsum wallboard, gypsum lath, gypsum sheathing and other similar boards (all of which are referred to collectively herein- [fol. 941] after as gypsum board) embodying or made by

the use of the inventions set forth and claimed in those certain Letters Patent and Applications for Letters Patent described in said agreement, and including United States Letters Patent thereafter granted upon any of said Applications, for the full term of said Letters Patent, all as in said license agreement set forth.

3. On the dates hereinafter shown, the following Letters Patent of the United States were duly and legally granted to U. S. Gypsum as assignee on Applications Serial Nos. 73,197, 3,477 and 142,155, respectively, therefore filed by Carlisle K. Roos, which Applications were included in the license agreement of October 18, 1929:

Patent No. 2,017,022, issued October 8, 1935;
Patent No. 2,079,338, issued May 4, 1937;
Patent No. 2,080,009, issued May 11, 1937.

Said Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009 duly became Letters Patent under said license so granted to Ebsary.

4. It was provided in said license agreement that, for the privilege of using said patents, Ebsary would pay to U. S. Gypsum certain amounts as therein set forth, among them an amount, referred to therein as a license fee or royalty, equivalent to one per cent (1%) of Ebsary's selling price of gypsum board manufactured and sold by it between July 8, 1941, and the date of the expiration of the last to expire of any patent granted or issued on said Applications Serial Nos. 733,197, 3,477 and 142,155, upon which Applications said Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009 were issued as aforesaid on October 8, 1935, May 4, 1937 and May 11, 1937, respectively.

5. On or about the 1st day of March, 1948, Ebsary repudiated its said license agreement of October 18, 1929, and discontinued the payment of all license fees or royalties payable or to be paid thereunder and refused to be bound by any of the provisions thereof. U. S. Gypsum acquiesced [fol. 942] in such repudiation, and thereafter each of the parties thereto treated the license agreement as rescinded and no action was subsequently taken by either of them to comply with or to enforce any of the provisions thereof or to require the other to perform the same.

6. Ebsary then and there at its request, made use of said U. S. Gypsum's Letters Patent No. 2,017,022 in the manufacture and sale of gypsum board embodying or made by the use of the inventions disclosed and claimed therein, and continued to so use the same through October 8, 1952, the date on which said patent expired, and then and there at its request made use of said United States Letters Patent Nos. 2,079,338 and 2,080,009, in the manufacture and sale of gypsum board embodying or made by the use of the inventions disclosed and claimed therein, and continued to so use the same to the date of the filing of this Complaint. Ebsary in consideration thereof, promised to pay to U. S. Gypsum the reasonable value of the use of plaintiff's Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009, during the periods such patents were used by Ebsary as aforesaid.

7. Ebsary, during such period, manufactured great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in one or more of said Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009, and sold the same for an amount aggregating, to-wit: Sixteen Million Dollars ($16,000,000). The fair and reasonable value of such use of said Letters Patent is not less than one per cent (1%) of Ebsary's said selling price of such gypsum board so manufactured and sold by it as aforesaid.

8. Ebsary thereupon became indebted to U. S. Gypsum in an amount aggregating, to-wit: One Hundred Sixty Thousand Dollars ($160,000), being the fair and reasonable value of the use of said Letters Patent, and being so indebted Ebsary, in consideration thereof, then and there promised U. S. Gypsum to pay it the said sum of money, on request. Yet, Ebsary, though requested, has not paid the same or any part thereof to U. S. Gypsum but refuses so [fol. 943] to do, to the damage of U. S. Gypsum of One Hundred Sixty Thousand Dollars ($160,000).

Count IV

For a Fourth Separate and Distinct Claim:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1,

2, and 3 of Count I of the Complaint with like effect as if herein fully set forth.

2. For that whereas the defendant Ebsary on the 26th day of February, 1953, in the Southern District of New York, and elsewhere throughout the United States, was indebted to the plaintiff U. S. Gypsum in the sum of One Hundred Sixty Thousand Dollars ($160,000) for the use of the plaintiff's Letters Patent of the United States Nos. 2,017,022, 2,079,338 and 2,080,009, in the manufacture and sale of its gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent, during the period between March 1, 1948 and the date of the filing of this Complaint, used and enjoyed by the defendant Ebsary at its request, and being so indebted, the defendant, Ebsary, in consideration thereof, then and there promised the plaintiff U. S. Gypsum to pay it the said sum of money, on request. Yet the defendant Ebsary, though requested, has not paid the same, or any part thereof, to the plaintiff U. S. Gypsum, but refuses so to do; to the damage of the plaintiff U. S. Gypsum of One Hundred Sixty Thousand Dollars ($160,000).

Count V

For a Fifth Separate and Distinct Claim:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1 and 2 of Count I of the Complaint, with like effect as if herein fully set forth.

[fol. 944] 2. This Court has jurisdiction by reason of the fact that this is a civil action arising under the patent laws of the United States, as hereinafter more fully appears. This action is being brought in a judicial district where defendant Ebsary resides within the meaning of Section 1400 of Title 28, U. S. Code.

3. On October 8, 1935, Letters Patent of the United States No. 2,017,022, relating to cementitious material, was duly and legally granted to U. S. Gypsum as assignee on Application Serial No. 733,197, theretofore filed by Carlisle K. Roos on August 20, 1924, and all right, title and interest in said United States Letters Patent No. 2,017,022 remained

in U. S. Gypsum during the entire life of said Letters Patent.

4. On May 4, 1937, Letters Patent of the United States No. 2,079,338, relating to cementitious material, was duly and legally granted to U. S. Gypsum as assignee on Application Serial No. 3,477, theretofore filed by Carlisle K. Roos on January 19, 1925, and, since the date of grant as aforesaid, U. S. Gypsum has been and still is the owner of all right, title and interest in said United States Letters Patent No. 2,079,338.

5. On May 11, 1937, Letters Patent of the United States No. 2,080,009, relating to plaster wallboard and method of making it, was duly and legally granted to U. S. Gypsum as assignee on Application Serial No. 142,155, theretofore filed by Carlisle K. Roos on October 16, 1926, and, since the date of grant as aforesaid, U. S. Gypsum has been and still is the owner of all right, title and interest in said United States Letters Patent No. 2,080,009.

6. Ebsary has, within the last six years prior to the filing of this Complaint, and since the issuance of said Letters Patent No. 2,017,022, beginning on March 1, 1948, and continuing through October 8, 1952, without authority or permission of U. S. Gypsum, infringed said Letters Patent No. 2,017,022, wilfully and deliberately by making, selling [fol. 945] and using within the United States, including the use and sale thereof within the State of New York, gypsum board (including but without limitation gypsum wallboard, gypsum lath, gypsum sheathing, and other similar boards containing a cellular core composed of cementitious material) embodying, or made by the use of, the inventions disclosed and claimed in said Letters Patent.

7. Ebsary has, within the last six years prior to the filing of this Complaint, and since the issuance of the aforesaid Letters Patent Nos. 2,079,338 and 2,080,009, and each of them, beginning on March 1, 1948, without authority or permission of U. S. Gypsum, infringed said Letters Patent No. 2,079,338 and No. 2,080,009, and each of them, wilfully and deliberately by making, selling and using within the United States, including the use and sale thereof within the State of New York, gypsum board (including but without limitation gypsum wallboard, gypsum lath, gypsum sheath-

ing, and other similar boards containing a cellular core composed of cementitious material) embodying, or made by the use of, the inventions disclosed and claimed in said Letters Patents and each of them.

8. Ebsary, during all periods pertinent to the Complaint, has had full knowledge of Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009 and of the fact that all right, title and interest therein and thereto was in U. S. Gypsum, but despite said knowledge, Ebsary continued and persisted in such infringement as aforesaid.

9. By reason of the aforesaid infringement, Ebsary has derived unlawful gains and profits which plaintiff would otherwise have received but for the aforesaid infringement, to the damage of the plaintiff in the sum of One Hundred Sixty Thousand Dollars ($160,000).

[fol. 946]

Count VI

For a Sixth Separate and Distinct Claim:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1 and 2 of Count I of the Complaint and in paragraph 2 of Count V of the Complaint, with like effect as if herein fully set forth.

2. On June 16, 1936, Letters Patent of the United States No. 2,044,401, relating to core composition and method of manufacturing same, was duly and legally granted to U. S. Gypsum as assignee on Application Serial No. 386,189, theretofore filed by Carlisle K. Roos on August 15, 1929, and since the date of grant as aforesaid, U. S. Gypsum has been and still is the owner of all right, title and interest in said United States Letters Patent No. 2,044,401.

3. Ebsary has, within the last six years prior to the filing of this Complaint, and since the issuance of said Letters Patent, without authority or permission of U. S. Gypsum, infringed said Letters Patent No. 2,044,401, wilfully and deliberately by making, selling and using within the United States, including the use and sale thereof within the State of New York, gypsum board (including but without limitation gypsum wallboard, gypsum lath, gypsum sheathing, and other similar boards comprising a cementi-

tious material) embodying, or made by the use of, the inventions disclosed and claimed in said Letters Patent.

4. U. S. Gypsum has placed the required statutory notice on all gypsum board made and sold by it under said Letters Patent No. 2,044,401 since the date of issuance thereof, but despite such notice, Ebsary infringed said patent as aforesaid and has continued and persisted in such infringement to the time of the filing of this Complaint. [fol. 947] 5. By reason of the aforesaid infringement, Ebsary has derived unlawful gains and profits which plaintiff would otherwise have received but for the aforesaid infringement, to the damage of the plaintiff in the sum of Eighty-Five Thousand Dollars ($85,000).

Wherefore, plaintiff U. S. Gypsum prays as follows:

(a) If the Court finds that the defendant Ebsary is indebted to plaintiff U. S. Gypsum, for the period from March 1, 1948 to May 15, 1951, as alleged in either Counts I, II, III or IV hereof, and for the period from May 15, 1951 to the date of the filing of the Complaint herein, as alleged in either Counts III or IV hereof, that judgment be entered against said defendant for the sum of One Hundred Sixty Thousand Dollars ($160,000), together with interest and costs of this suit; or

(b) In the alternative, if the Court finds that defendant, Ebsary, has infringed U. S. Gypsum's Letters Patent No. 2,017,022 in the period from March 1, 1948, through October 8, 1952, and has infringed U. S. Gypsum's Letters Patent Nos. 2,079,338 and 2,080,009, or either of them, in the period from March 1, 1948, to the time of the filing of this Complaint, as alleged in Count V hereof, that judgment be entered against the said defendant for due compensation for making, using and selling said inventions, not less than a reasonable royalty therefor, in the sum of One Hundred Sixty Thousand Dollars ($160,000), together with costs of this suit; and

(c) If the Court finds that defendant, Ebsary, has infringed U. S. Gypsum's Letters Patent No.

2,044,401, as alleged in Count VI hereof, that judgment be entered against the said defendant for due compensation for making, using and selling said inventions, not less than a reasonable royalty therefor, [fol. 948] in the sum of Eighty-Five Thousand Dollars ($85,000), together with costs of this suit.

Cravath, Swaine & Moore, By (S.) Bruce Bromley, a member of the firm, 15 Broad St., New York 5, New York.

MacLeish, Spray, Price & Underwood, By (S.) Cranston Spray, a member of the firm, 134 South LaSalle Street, Chicago 3, Illinois.

Thiess, Olson, Mecklenburger, vonHolst and Coltman, By (S.) Arthur A. Olson, a member of the firm, 77 West Washington Street, Chicago 2, Illinois.

(S.) Cranston Spray, Robert Keck, Arthur A. Olson, Bruce Bromley, Of Counsel.

The agreement of October 18, 1929, between United States Gypsum Company and Ebsary Gypsum Company, which is attached to Exhibit B, is omitted. Said agreement appears in the transcript of record of Civil Action No. 8017 commencing at p. 9442, and in the transcript of record in the Supreme Court of the United States, October Term, 1947, No. 13, commencing at p. 4402.

[fol. 949] EXHIBIT C TO PETITION

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY

Civil Action No. 93-53

UNITED STATES GYPSUM COMPANY, an Illinois corporation,
Plaintiff,

vs.

NEWARK PLASTER COMPANY, a New Jersey corporation,
Defendant

COMPLAINT

Plaintiff, United States Gypsum Company, for complaint against defendant, Newark Plaster Company, alleges as follows:

COUNT I

FOR A FIRST SEPARATE AND DISTINCT CLAIM:

1. Plaintiff, United States Gypsum Company (referred to hereinafter as U. S. Gypsum), is a corporation duly organized and existing under and by virtue of the laws of the State of Illinois, having its principal place of business at Chicago, Illinois. U. S. Gypsum has qualified as a foreign corporation to do business in the State of New Jersey and for many years has been and is doing business within said state.

2. Defendant Newark Plaster Company (referred to hereinafter as Newark), is a corporation duly organized and existing under and by virtue of the laws of the State of New Jersey.

[fol. 950] 3. This Court has jurisdiction by reason of the fact that plaintiff, U. S. Gypsum, is a corporation incorporated under the laws of the State of Illinois, and that defendant, Newark, is a corporation incorporated under the laws of the State of New Jersey, and that the matter in controversy exceeds, exclusive of interests and costs, the sum of Three Thousand Dollars ($3,000). This action is being brought in a judicial district in which defendant is a

resident within the meaning of Section 1391 of Title 28, U. S. Code.

4. On April 23, 1930, U. S. Gypsum, as Licensor, and Kelley Plasterboard Company, Inc., a New Jersey corporation, hereinafter referred to as Kelley, as Licensee, entered into a license agreement under the terms of which, and for the considerations therein set forth, Kelley was licensed to make, use and sell gypsum wallboard, gypsum lath, gypsum sheathing and other similar boards (all of which are referred to collectively hereinafter as gypsum board) embodying or made by the use of the inventions set forth and claimed in those certain Letters Patent and Applications for Letters Patent described in said agreement, and including United States Letters Patent thereafter granted upon any of said Applications, for the full term of said Letters Patent, all as in said license agreement set forth, a true copy of which agreement is attached hereto as Exhibit A to this Count and made a part hereof.

5. Subsequently, on or about December 31, 1938, a merger was effected between said Newark and said Kelley Plasterboard Company, Inc., in accordance with the provisions of the New Jersey Corporation Law and under the corporate name of Newark Plaster Company, and said Kelley Plasterboard Company, Inc. assigned, transferred and set over unto Newark all of its right, title and interest in and to said license agreement of April 23, 1930, and the rights, licenses and privileges therein contained, and Newark agreed to and did assume all of the obligations of Licensee under said license agreement and agreed to be bound by all of the terms and conditions thereof to the same effect [fol. 951] as if Newark originally had been named in said license agreement as Licensee therein. Prior to February 1, 1948, U. S. Gypsum consented to said assignments made by said Kelley Plasterboard Company, Inc. to Newark of said license agreement of April 23, 1930, and acknowledged that said license agreement was in full force and effect with Newark as the Licensee thereunder in place of Kelley Plasterboard Company, Inc.

6. On the dates hereinafter shown, the following Letters Patent of the United States were duly and legally granted to U. S. Gypsum as assignee on Applications Serial Nos.

733,197, 3,477 and 142,155, respectively, theretofore filed by Carlisle K. Roos, which Applications were included in the said license agreement of April 23, 1930:

Patent No. 2,017,022, issued October 8, 1935;
Patent No. 2,079,338, issued May 4, 1937;
Patent No. 2,080,009, issued May 11, 1937.

Said Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009 duly became Letters Patent under said license so granted to Newark.

7. It was provided in said license agreement that, for the privilege of using said patents, Licensee would pay to U. S. Gypsum certain amounts as therein set forth, among them an amount, referred to therein as a license fee or royalty, equivalent to one per cent (1%) of Licensee's selling price of gypsum board manufactured and sold by it between July 8, 1941, and the date of the expiration of the last to expire of any patent granted or issued on said Applications Serial No. 733,197, 3,477 and 142,155, upon which Applications said Letters Patent Nos. 2,017,022, 2,079,338, and 2,080,009 were issued as aforesaid on October 8, 1935, May 4, 1937 and May 11, 1937, respectively.

8. Commencing with the license fees or royalties under said license agreement for the month of February, 1948 (payable under said license agreement on or before the 20th day of March, 1948) and continuing to May 15, 1951, [fol. 952] Newark failed and refused to pay any such license fees or royalties to U. S. Gypsum, although during the whole of said period Newark continued to manufacture and sell gypsum board embodying or made by the use of the inventions disclosed and claimed in one or more of said Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009.

9. There is now due and payable to U. S. Gypsum by Newark as license fees or royalties under said license agreement an amount equal to one per cent (1%) of the selling price of Newark of all of said gypsum board so manufactured and sold by it between February 1, 1948, and May 15, 1951, embodying or made by the use of inventions disclosed and claimed in one or more of said Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009.

10. Pursuant to the provisions of said license agreement

of April 23, 1930, Newark as such Licensee thereunder, during the period commencing on February 1, 1948, and ending on May 14, 1951, manufactured and sold great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in one or more of said Letters Patent No. 2,017,022, No. 2,079,338 and No. 2,080,009, and sold the same for an amount aggregating, to-wit: Twelve Million Dollars ($12,000,000) for which said Newark had become indebted to U. S. Gypsum for license fees or royalties aggregating One Hundred Twenty Thousand Dollars ($120,000), which said license fees and royalties said Newark has wholly failed and refused to pay in whole or in part, although often requested so to do.

Count II

For a Second Separate and Distinct Claim:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1, 2, 3, 4, 5, 6 and 7 of Count I of the complaint with like effect as if herein fully set forth.

[fol. 953] 2. On or about February 1, 1948, Newark discontinued the payment of said license fees or royalties but nevertheless continued under its said license to manufacture and sell gypsum board embodying or made by the use of the inventions disclosed and claimed in one or more of said Letters Patent No. 2,017,022, No. 2,079,338 and No. 2,080,009. U. S. Gypsum and Newark each having determined to discontinue compliance with the provisions of said license agreement, agreed, and it was so understood between them, that if Newark used any of said Letters Patent in the manufacture and sale of gypsum board, Newark would account for and pay to U. S. Gypsum under said license agreement the said license fee or royalty of one per cent (1%) of Newark's selling price for gypsum board actually manufactured and sold by it embodying or made by the use of the inventions disclosed and claimed in one or more of said Letters Patent No. 2,017,022, No. 2,079,338 and No. 2,080,009. It was further understood and agreed that no further performance would be required by either party under said license agreement except that if Newark continued to use said

patents thereunder it would account for and pay to U. S. Gypsum all such license fees or royalties for the actual use of said patents as aforesaid. Newark continued to so manufacture and sell said gypsum board under its said license until May 15, 1951, and thereupon became and now is indebted to U. S. Gypsum in an amount therefor equal to one per cent (1%) of its selling price of all such gypsum board manufactured and sold by it between February 1, 1948, and May 15, 1951, embodying and claimed in one or more of said Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009.

3. Newark, during the period commencing February 1, 1948, and ending May 14, 1951, manufactured and sold great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in one or more of said Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009, and sold the same for an amount aggregating, to-wit: Twelve Million Dollars ($12,000,000) for which Newark has become indebted to U. S. Gypsum for license [fol. 954] fees or royalties in an amount aggregating One Hundred Twenty Thousand Dollars ($120,000), which said license fees or royalties so payable as aforesaid Newark has wholly failed and refused to pay in whole or in part, although often requested so to do.

Count III

For a Third Separate and Distinct Claim:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1. 2 and 3 of Count I of the complaint with like effect as if herein fully set forth.

2. On April 23, 1930, U. S. Gypsum, as Licensor, and Kelley Plasterboard Company, Inc., a New Jersey corporation, as Licensee, entered into a license agreement under the terms of which, and for the considerations therein set forth, Kelley was licensed to make, use and sell gypsum wallboard, gypsum lath, gypsum sheathing and other similar boards (all of which are referred to collectively hereinafter as gypsum board) embodying or made by the use of the inventions set forth and claimed in those certain Letters

Patent and Applications for Letters Patent described in said agreement, and including United States Letters Patent thereafter granted upon any of said Applications, for the full term of said Letters Patent, all as in said license agreement set forth.

3. Subsequently, on or about December 31, 1938, a merger was effected between said Newark and said Kelley Plasterboard Company, Inc., in accordance with the provisions of the New Jersey Corporation Law and under the corporate name of Newark Plaster Company, and said Kelley Plasterboard Company, Inc. assigned, transferred and set over unto Newark all of its right, title and interest in and to said license agreement of April 23, 1930, and the rights, license and privileges therein contained, and Newark agreed to and did assume all of the obligations of Licensee [fol. 955] under said license agreement and agreed to be bound by all of the terms and conditions thereof to the same effect as if Newark originally had been named in said license agreement as Licensee therein. Prior to February 1, 1948, U. S. Gypsum consented to said assignment made by said Kelley Plasterboard Company, Inc. to Newark of said license agreement of April 23, 1930, and acknowledged that said license agreement was in full force and effect with Newark as the Licensee thereunder in place of Kelly Plasterboard Company, Inc.

4. On the dates hereinafter shown, the following Letters Patent of the United States were duly and legally granted to U. S. Gypsum as assignee on Applications Serial Nos. 733,197, 3,477 and 142,155, respect*fu*lly, theretofore filed by Carlisle K. Roos, which Applications were included in the said license agreement of April 23, 1930:

Patent No. 2,017,022, issued October 8, 1935;
Patent No. 2,079,338, issued May 4, 1937;
Patent No. 2,080,009, issued May 11, 1937.

Said Letters Patent No. 2,017,022, 2,079,338 and 2,080,009 duly became Letters Patent under said license so granted to Newark.

5. It was provided in said license agreement that, for the privilege of using said patents, Licensee would pay to U. S. Gypsum certain amounts as therein set forth, among

them an amount, referred to therein as a license fee or royalty, equivalent to one per cent (1%) of Licensee's selling price of gypsum board manufactured and sold by it between July 8, 1941, and the date of the expiration of the last to expire of any patent granted or issued on said Applications Serial Nos. 733,197, 3,477 and 142,155, upon which Applications said Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009 were issued as aforesaid on October 8, 1935, May 4, 1937 and May 11, 1937, respectively.

6. On or about the 1st day of February, 1948, Newark repudiated its said license agreement of April 23, 1930, and [fol. 956] discontinued the payment of all license fees or royalties payable or to be paid thereunder and refused to be bound by any of the provisions thereof. U. S. Gypsum acquiesced in such repudiation, and thereafter each of the parties thereto treated the license agreement as rescinded and no action was subsequently taken by either of them to comply with or to enforce any of the provisions thereof or to require the other to perform the same.

7. Newark then and there at its request, made use of said U. S. Gypsum's Letters Patent No. 2,017,022 in the manufacture and sale of gypsum board embodying or made by the use of the inventions disclosed and claimed therein, and continued to so use the same through October 8, 1952, the date on which said patent expired, and then and there at its request made use of said United States Letters Patent No. 2,079,338 and No. 2,080,009, in the manufacture and sale of gypsum board embodying or made by the use of the inventions disclosed and claimed therein, and continued to so use the same to the date of the filing of this complaint. Newark in consideration thereof, promised to pay to U. S. Gypsum the reasonable value of the use of plaintiff's Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009, during the periods such patents were used by Newark as aforesaid.

8. Newark, during such period, manufactured great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in one or more of said Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009, and sold the same for an amount aggregating, to-wit: Eighteen Million Five Hundred Thousand Dollars ($18,500,000). The fair and reasonable value of such use of

said Letters Patent is not less than one per cent (1%) of Newark's said selling price of such gypsum board so manufactured and sold by it as aforesaid.

9. Newark thereupon became indebted to U. S. Gypsum in an amount aggregating, to-wit: One Hundred Eighty-Five Thousand Dollars ($185,000), being the fair and reasonable value of the use of said Letters Patent, and being so [fol. 957] indebted Newark, in consideration thereof, then and there promised U. S. Gypsum to pay it the said sum of money on request. Yet Newark, though requested, has not paid the same or any part thereof to U. S. Gypsum but refuses so to do, to the damage of U. S. Gypsum of One Hundred Eighty-Five Thousand Dollars ($185,000).

Count IV

For a Fourth Separate and Distinct Claim:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1, 2 and 3 of Count I of the complaint with like effect as if herein fully set forth.

2. For that whereas the defendant Newark on the 30th day of January, 1953, in the State of New Jersey, and elsewhere throughout the United States, was indebted to the plaintiff U. S. Gypsum in the sum of One Hundred Eighty-Five Thousand Dollars ($185,000) for the use of the plaintiff's Letters Patent of the United States Nos. 2,017,022, 2,079,338, and 2,080,009, in the manufacture and sale of its gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent, during the period between February 1, 1948 and the date of the filing of this complaint, used and enjoyed by the defendant Newark at its request, and being so indebted, the defendant Newark, in consideration thereof, then and there promised the plaintiff U. S. Gypsum to pay it the said sum of money, on request. Yet the defendant Newark, though requested, has not paid the same, or any part thereof, to the plaintiff U. S. Gypsum, but refuses so to do: to the damage of the plaintiff U. S. Gypsum of One Hundred Eighty-Five Thousand Dollars ($185,000).

[fol. 958] Count V

For a Fifth Separate and Distinct Claim:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1 and 2 of Count I of the complaint, with like effect as if herein fully set forth.

2. This Court has jurisdiction by reason of the fact that this is a civil action arising under the patent laws of the United States, as hereinafter more fully appears. This action is being brought in a judicial district where defendant resides within the meaning of Section 1400 of Title 28, U. S. Code.

3. On October 8, 1935, Letters Patent of the United States No. 2,017,022, relating to cementitious material, was duly and legally granted to U. S. Gypsum as assignee on the Application Serial No. 733,197, theretofore filed by Carlisle K. Roos on August 20, 1924, and all right, title and interest in said United States Letters Patent No. 2,017,022 remained in U. S. Gypsum during the entire life of said Letters Patent.

4. On May 4, 1937, Letters Patent of the United States No. 2,079,338, relating to cementitious material, was duly and legally granted to U. S. Gypsum as assignee on Application Serial No. 3,477, theretofore filed by Carlisle K. Roos on January 19, 1925, and, since the date of grant as aforesaid, U. S. Gypsum has been and still is the owner of all right, title and interest in said United States Letters Patent No. 2,079,338.

5. On May 11, 1937, Letters Patent of the United States No. 2,080,009, relating to plaster wallboard and method of making it, was duly and legally granted to U. S. Gypsum as assignee on Application Serial No. 142,155, theretofore filed by Carlisle K. Roos on October 16, 1926, and, since the date of grant as aforesaid, U. S. Gypsum has been [fol. 959] and still is the owner of all right, title and interest in said United States Letters Patent No. 2,080,009.

6. Newark has, within the last six years prior to the filing of this complaint, and since the issuance of said Letters Patent No. 2,017,022, beginning on February 1, 1948, and continuing through October 8, 1952, without authority or permission of U. S. Gypsum, infringed said

Letters Patent No. 2,017,022 wilfully and deliberately by making, selling and using within the United States, including the use and sale thereof within the State of New Jersey, gypsum board (including but without limitation gypsum wallboard, gypsum lath, gypsum sheathing, and other similar boards containing a cellular core composed of cementitious material) embodying, or made by the use of, the inventions disclosed and claimed in said Letters Patent.

7. Newark has, within the last six years prior to the filing of this complaint, and since the issuance of the aforesaid letters patent and each of them, and beginning on February 1, 1948, without authority or permission of U. S. Gypsum, infringed said Letters Patent No. 2,079,338 and No. 2,080,009, and each of them, wilfully and deliberately by making, selling and using within the United States, including the use and sale thereof within the state of New Jersey, gypsum board (including but without limitation gypsum wallboard, gypsum lath, gypsum sheathing, and other similar boards containing a cellular core composed of cementitious material) embodying, or made by the use of, the inventions disclosed and claimed in said letters patent and each of them.

8. Newark, during all periods pertinent to the complaint, has had full knowledge of Letters Patent Nos. 2,017,022, 2,079,338 and 2,080,009 and of the fact that all right, title and interest therein and thereto was in U. S. Gypsum, but despite said knowledge, Newark continued and persisted in such infringement, as aforesaid.

9. By reason of the aforesaid infringement, Newark has derived unlawful gains and profits which plaintiff would [fol. 960] otherwise have received but for the aforesaid infringement, to the damage of the plaintiff in the sum of One Hundred Eighty-Five Thousand Dollars ($185,000).

Count VI

For a Sixth Separate and Distinct Claim:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1 and 2 of Count I of the complaint and in paragraph 2

of Count V of the complaint, with like effect as if herein fully set forth.

2. On June 16, 1936, Letters Patent of the United States No. 2,044,401, relating to core composition and method of manufacturing same, was duly and legally granted to U. S. Gypsum as assignee on Application Serial No. 386,189, theretofore filed by Carlisle K. Roos on August 15, 1929, and since the date of grant as aforesaid, U. S. Gypsum has been and still is the owner of all right, title and interest in said United States Letters Patent No. 2,044,401.

3. Newark has, within the last six years prior to the filing of this complaint, and since the issuance of said letters patent, without authority or permission of U. S. Gypsum, infringed said Letters Patent No. 2,044,401 wilfully and deliberately by making, selling and using within the United States, including the use and sale thereof within the state of New Jersey, gypsum board (including but without limitation gypsum wallboard, gypsum lath, gypsum sheathing, and other similar boards comprising a cementitious material) embodying or made by the use of the inventions disclosed and claimed in said letters patent.

4. Newark during all periods pertinent to the complaint has had full knowledge of Letters Patent No. 2,044,401, and of the fact that all right, title and interest therein and thereto was in U. S. Gypsum, but despite said knowledge, Newark infringed said patent as aforesaid and has [fol. 961] continued and persisted in such infringement to the time of the filing of this complaint.

5. By reason of the aforesaid infringement, Newark has derived unlawful gains and profits which plaintiff would otherwise have received but for the aforesaid infringement, to the damage of the plaintiff in the sum of One Hundred Thousand Dollars ($100,000).

Wherefore, plaintiff U. S. Gypsum prays as follows:

(a) If the Court finds that defendant Newark is indebted to plaintiff U. S. Gypsum, for the period from February 1, 1948 to May 15, 1951, as alleged in either Counts I, II, III or IV hereof, and for the period from May 15, 1951 to the date of the filing of

the complaint herein, as alleged in either Counts III or IV hereof, that judgment be entered against said defendant for the sum of One Hundred Eighty-Five Thousand Dollars ($185,000), together with interest and costs of this suit; or

(b) In the alternative, if the Court finds that defendant Newark, has infringed U. S. Gypsum's Letters Patent No. 2,017,022 in the period from February 1, 1948, through October 8, 1952, and has infringed U. S. Gypsum's Letters Patents Nos. 2,079,338 and 2,080,009, or either of them in the period from February 1, 1948, to the time of the filing of this complaint, as alleged in Count V hereof, that judgment be entered against the said defendant for due compensation for making, using and selling said inventions, not less than a reasonable royalty therefor, in the sum of One Hundred Eighty-Five Thousand Dollars ($185,000), together with costs of this suit; and

(c) If the Court finds that defendant, Newark, has infringed U. S. Gypsum's Letters Patent No. 2,044,401, as alleged in Count VI hereof, that judgment be entered against the said defendant for due compensation for making, using and selling said inventions, not less than [fol. 962] a reasonable royalty therefor, in the sum of One Hundred Thousand Dollars ($100,000), together with costs of this suit.

Stryker, Tams & Horner, by Josiah Stryker, Josiah Stryker, a member of the firm, 744 Broad Street, Newark 2, New Jersey, MacLeish, Spray, Price & Underwood, by Cranston Spray, Cranston Spray, a member of the firm, 134 South LaSalle Street, Chicago 3, Illinois, Theiss, Olson, Mecklenburger, vonHolst and Coltman, by Arthur A. Olson, Arthur A. Olson, a member of the firm, 77 West Washington Street, Chicago, Illinois, *Attorneys for Plaintiff.*

Cranston Spray, Cranston Spray, Robert C. Keck, Robert C. Keck, Arthur A. Olson, Arthur A. Olson, Josiah Stryker, Josiah Stryker, *Of Counsel.*

The agreement of April 23rd, 1930, between United States Gypsum Company and Kelley Plasterboard Company, Inc., which is attached to Exhibit C, is omitted. Said agreement appears in the transcript of record of Civil Action No. 8017 commencing at p. 9535, and in the transcript of record in the Supreme Court of the United States, October Term, 1947, No. 13, at p. 4474.

[fol. 963] EXHIBIT D TO PETITION

IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF IOWA, CENTRAL DIVISION

Civil Action No. 568

UNITED STATES GYPSUM COMPANY, an Illinois Corporation, Plaintiff,

vs.

CERTAIN-TEED PRODUCTS CORPORATION, a Maryland Corporation, Defendant

COMPLAINT

Plaintiff, United States Gypsum Company, for complaint against defendant, Certain-teed Products Corporation, alleges as follows:

Count I

For a First Separate and Distinct Claim:

1. Plaintiff, United States Gypsum Company (referred to hereinafter as U. S. Gypsum), is a corporation duly organized and existing under and by virtue of the laws of the State of Illinois, having its principal place of business at Chicago, Illinois. U. S. Gypsum has qualified as a foreign corporation to do business in the State of Iowa and for many years has been and is doing business within the Northern District of Iowa.

2. Defendant, Certain-teed Products Corporation (referred to hereinafter as Certain-teed), is a corporation duly organized and existing under and by virtue of the laws of

[fol. 964] the State of Maryland. Certain-teed has qualified as a foreign corporation to do business in the State of Iowa and has a regular and established place of business in Webster County, State of Iowa. For many years Certain-teed has been and is doing business within the Central Division of the Northern District of Iowa.

3. This Court has jurisdiction by reason of the fact that plaintiff, U. S. Gypsum, is a corporation incorporated under the laws of the State of Illinois, and that defendant, Certain-teed, is a corporation incorporated under the laws of the State of Maryland, and that the matter in controversy exceeds, exclusive of interests and costs, the sum of Three Thousand Dollars ($3,000). This civil action is being brought in a judicial district in which defendant is a resident within the meaning of Section 1391 of Title 28, U. S. Code.

4. On October 15, 1929, U. S. Gypsum, as Licensor, and Certain-teed, as Licensee, entered into a license agreement under the terms of which, and for the considerations therein set forth, Certain-teed was licensed to make, use and sell gypsum wallboard, gypsum lath, gypsum sheathing and other similar boards (all of which are referred to collectively hereinafter as gypsum board) embodying or made by the use of the inventions set forth and claimed in those certain Letters Patent and Applications for Letters Patent described in said agreement, and including United States Letters Patent thereafter granted upon any of said Applications, for the full term of said Letters Patent, all as in said license agreement set forth, a true copy of which agreement is attached hereto as Exhibit A to this Count and made a part hereof.

5. On October 8, 1935, Letters Patent of the United States No. 2,017,022, relating to cementitious material, was duly and legally granted to U. S. Gypsum as assignee on Application Serial No. 733,197 theretofore filed by Carlisle K. Roos on August 20, 1924, which application was included in the said license agreement of October 15, 1929, and said [fol. 965] Letters Patent No. 2,017,022 duly became Letters Patent under said license so granted to Certain-teed.

6. It was provided in said license agreement that for the privilege of using said patents Certain-teed would pay

to U. S. Gypsum certain amounts as therein set forth, among them an amount, referred to therein as a license fee or royalty, equivalent to one per cent (1%) of Certain-teed's selling price of gypsum board manufactured and sold by it between July 8, 1941, and the date of the expiration of the last to expire of any patent granted or issued on said Application Serial No. 733,197, upon which Application said Letters Patent No. 2,017,022 was issued as aforesaid on October 8, 1935.

7. Commencing with the license fees or royalties under said license agreement for the month of April, 1948 (payable under said license agreement on or before the 20th day of May, 1948) and continuing to May 15, 1951, Certain-teed failed and refused to pay any such license fees or royalties to U.S. Gypsum, although during the whole of said period Certain-teed continued under its said license to manufacture and sell gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022.

8. There is now due and payable to U. S. Gypsum by Certain-teed as license fees or royalties under said license agreement an amount equal to one per cent (1%) of the selling price of Certain-teed of all of said gypsum board so manufactured and sold by it between April 1, 1948 and May 15, 1951, embodying or made by the use of inventions disclosed and claimed in said Letters Patent No. 2,017,022.

9. Pursuant to the provisions of said license agreement of October 15, 1929, Certain-teed as such Licensee, during the period commencing on April 1, 1948, and ending on May 14, 1951, manufactured and sold great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022 and sold the same for an amount aggregating, to-[fol. 966] wit: Sixty-Five Million Dollars ($65,000,000), for which said Certain-teed has become indebted to U. S. Gypsum for license fees or royalties aggregating Six Hundred Fifty Thousand Dollars ($650,000), which said license fees and royalties said Certain-teed has wholly failed and refused to pay in whole or in part, although often requested so to do.

Count II

For a Second Separate and Distinct Claim:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1, 2, 3, 4, 5 and 6 of Count I of the Complaint with like effect as if herein fully set forth.

2. On or about April 1, 1948, Certain-teed discontinued the payment of said license fees or royalties but nevertheless continued under its said license to manufacture and sell gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022. U. S. Gypsum and Certain-teed each having determined to discontinue compliance with the provisions of said license agreement, agreed, and it was so understood between them, that Certain-teed would account for and pay to U. S. Gypsum under said license agreement the said license fee or royalty of one per cent (1%) of Certain-teed's selling price for gypsum board actually manufactured and sold by it embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022. It was further understood and agreed that no further performance would be required by either party under said license agreement except that Certain-teed could continue to use said patents thereunder and would account for and pay to U. S. Gypsum all such license fees or royalties for the actual use of said patents as aforesaid. Certain-teed continued to so manufacture and sell said gypsum board under its said license until May 15, 1951, and thereupon became and now is indebted to U. S. Gypsum in an [fol. 967] amount therefor equal to one per cent (1%) of its selling price of all such gypsum board manufactured and sold by it between April 1, 1948, and May 15, 1951, embodying or made by the use of the inventions and improvements disclosed and claimed in said Letters Patent No. 2,017,022.

3. Certain-teed, during the period commencing April 1, 1948, and ending May 14, 1951, manufactured and sold great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022 and sold the same for an

amount aggregating, to-wit: Sixty-Five Million Dollars ($65,000,000) for which Certain-teed has become indebted to U. S. Gypsum for license fees or royalties in an amount aggregating Six Hundred Fifty Thousand Dollars ($650,-000), which said license fees or royalties so payable as aforesaid Certain-teed has wholly failed and refused to pay in whole or in part, although often requested so to do.

Count III

For a Third Separate and Distinct Claim:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1, 2 and 3 of Count I of the Complaint with like effect as if herein fully set forth.

2. On October 15, 1929, U. S. Gypsum, as Licensor, and Certain-teed, as Licensee, entered into a license agreement under the terms of which, and for the considerations therein set forth, Certain-teed was licensed to make, use and sell gypsum wallboard, gypsum lath, gypsum sheathing and other similar boards (all of which are referred to collectively hereinafter as gypsum board) embodying or made by the use of the inventions set forth and claimed in those certain Letters Patent and Applications for Letters Patent described in said agreement, and including United States Letters Patent thereafter granted upon any of said Appli-[fol. 968] cations, for the full term of said Letters Patent, all as in said license agreement set forth.

3. On October 8, 1935, Letters Patent of the United States No. 2,017,022, relating to cementitious material, was duly and legally granted to U. S. Gypsum as assignee on Application Serial No. 733,197 theretofore filed by Carlisle K. Roos on August 20, 1924, which application was included in the said license agreement of October 15, 1929, and said Letters Patent No. 2,017,022 duly became Letters Patent under said license so granted to Certain-teed.

4. It was provided in said license agreement that for the privilege of using said patents Certain-teed would pay to U. S. Gypsum certain amounts as therein set forth, among them an amount, referred to therein as a license fee or royalty, equivalent to one per cent (1%) of Certain-teed's selling price of gypsum board manufactured and

sold by it between July 8, 1941, and the date of the expiration of the last to expire of any patent granted or issued on said Application Serial No. 733,197, upon which Application said Letters Patent No. 2,017,022 was issued as aforesaid on October 8, 1935.

5. On or about the 1st day of April, 1948, Certain-teed repudiated its said license agreement of October 15, 1929, and discontinued the payment of all license fees or royalties payable or to be paid thereunder and refused to be bound by any of the provisions thereof. U. S. Gypsum acquiesced in such repudiation and thereafter each of the parties thereto treated the license agreement as rescinded and no action was subsequently taken by either of them to comply with or to enforce any of the provisions thereof or to require the other to perform the same.

6. Certain-teed then and there at its request made use of U. S. Gypsum's Letters Patent No. 2,017,022 in the manufacture and sale of gypsum board embodying or made by the use of the inventions disclosed and claimed therein and continued to so use the same until May 15, 1951. Certain-teed in consideration thereof promised to pay to [fol. 969] U. S. Gypsum the reasonable value of the use of plaintiff's Letters Patent No. 2,017,022 from the time of such repudiation to May 15, 1951.

7. Certain-teed, during such period, manufactured great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022, and sold the same for an amount aggregating, to-wit: Sixty-Five Million Dollars ($65,000,000). The fair and reasonable value of such use of said Letters Patent is not less than one per cent (1%) of Certain-teed's said selling price of such gypsum board so manufactured and sold by it as aforesaid.

8. Certain-teed thereupon became indebted to U. S. Gypsum in an amount aggregating, to-wit: Six Hundred Fifty Thousand Dollars ($650,000), being the fair and reasonable value of the use of said Letters Patent, and being so indebted Certain-teed, in consideration thereof, then and there promised U. S. Gypsum to pay it the said sum of money, on request. Yet Certain-teed, though requested, has not paid the same or any part thereof to U. S. Gypsum

but refuses so to do, to the damage of U. S. Gypsum of Six Hundred Fifty Thousand Dollars ($650,000).

Count IV

For a Fourth Separate and Distinct Claim:

1. Plaintiff repeats and realleges as part of this claim each and all of the allegations contained in paragraphs 1, 2 and 3 of Count I of the Complaint with like effect as if herein fully set forth.

2. For that whereas the defendant Certain-teed on the 11th day of March, 1953, in the Northern District of Iowa, Central Division, and elsewhere throughout the United States, was indebted to the plaintiff U. S. Gypsum in the sum of Six Hundred Fifty Thousand Dollars ($650,000) for the use of the plaintiff's Letters Patent of the United States No. 2,017,022 in the manufacture and sale of its [fol. 970] gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent, during the period between April 1, 1948 and May 15, 1951 used and enjoyed by the defendant Certain-teed at its request, and being so indebted, the defendant Certain-teed, in consideration thereof, then and there promised the plaintiff U. S. Gypsum to pay it the said sum of money, on request. Yet the defendant Certain-teed, though requested, has not paid the same, or any part thereof, to the plaintiff U. S. Gypsum, but refuses so to do; to the damage of the plaintiff U. S. Gypsum of Six Hundred Fifty Thousand Dollars ($650,000).

Count V

For a Fifth Separate and Distinct Claim:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1 and 2 of Count I of the Complaint, with like effect as if herein fully set forth.

2. This Court has jurisdiction by reason of the fact that this is a civil action based upon United States Letters Patent No. 2,017,022, dated October 8, 1935, arising under the patent laws of the United States, as hereinafter more fully appears. This action is being brought in a judicial

district where defendant has committed acts of infringement and has a regular and established place of business within the meaning of Section 1400 of Title 28, U. S. Code.

3. On October 8, 1935, Letters Patent of the United States No. 2,017,022, relating to cementitious material, was duly and legally granted to U. S. Gypsum as assignee on the Application Serial No. 733,197, theretofore filed by Carlisle K. Roos on August 20, 1924, and all right, title and interest in said United States Letters Patent No. 2,017,022 remained in U. S. Gypsum during the entire life of said Letters Patent.

4. Certain-teed has, within the last six years prior to the filing of this Complaint, and since the issuance of said [fol. 971] Letters Patent, beginning on April 1, 1948, and continuing until May 15, 1951, without authority or permission of U. S. Gypsum, infringed said Letters Patent No. 2,017,022 wilfully and deliberately by making, selling and using within the United States, including the use and sale thereof within the Northern District of Iowa, Central Division, gypsum board (including but without limitation gypsum wallboard, gypsum lath, gypsum sheathing, and other similar boards containing a cellular core composed of cementitious material) embodying or made by the use of, the inventions disclosed and claimed in said Letters Patent.

5. Certain-teed, during all periods pertinent to the Complaint, has had full knowledge of Letters Patent No. 2,017,022 and of the fact that all right, title and interest therein and thereto was in U. S. Gypsum, but despite said knowledge, Certain-teed continued and persisted in such infringement, as aforesaid.

6. By reason of the aforesaid infringement, Certain-teed has derived unlawful gains and profits which plaintiff would otherwise have received but for the aforesaid infringement, to the damage of the plaintiff in the sum of Six Hundred Fifty Thousand Dollars ($650,000).

Wherefore, plaintiff, U. S. Gypsum, prays as follows:

(a) If the Court finds that defendant, Certain-teed is indebted to plaintiff, U. S. Gypsum, as alleged in either Counts I, II, III or IV hereof, that judgment be entered against said defendant for the sum of Six

Hundred Fifty Thousand Dollars ($650,000), together with interest and costs of this suit;

(b) Or in the alternative, if the Court finds that defendant, Certain-teed, has infringed U. S. Gypsum's Letters Patent No. 2,017,022, as charged in Count V hereof, that judgment be entered against the defendant for due compensation for making, using, and selling said invention, not less than a reasonable royalty [fol. 972] therefor, in the sum of Six Hundred Fifty Thousand Dollars ($650,000), together with costs of this suit.

Cranston Spray, Robert C. Keck, MacLeisch, Spray, Price & Underwood, 134 South LaSalle Street, Chicago 3, Illinois, Arthur A. Olson, Thiess, Olson, Mecklenburger, vonHolst and Coltman, 77 West Washington Street, Chicago 2, Illinois, Bert B. Burnquist, Burnquist, Helsell & Burnquist, State Bank Building, Fort Dodge, Iowa, *Attorneys for the Plaintiff.*

The agreement of October 15, 1929, between United States Gypsum Company and Certain-Teed Products Corporation, which is attached to *Exhibit D*, is omitted. Said agreement appears in the Transcript of Record Civil Action No. 8017, commencing at page 9413, and in the Transcript of Record in Supreme Court of the United States, October Term, 1947, No. 13, at page 4379.

[fol. 973] EXHIBIT E TO PETITION

THIESS, OLSON & MECKLENBURGER
Attorneys and Counselors
77 West Washington Street
Chicago 2
Financial 6-1200

July 25, 1952

Henry J. Kaiser Company,
1924 Broadway,
Oakland, California.

Gentlemen:

Acting under instructions of our client, United States Gypsum Company, we hereby notify you that the gypsum board which you are marketing, and the processes by which said board is made at the plants of the Kaiser Gypsum Division of your company at Redwood City and Long Beach, California, infringe the following United States patents owned by United States Gypsum Company:

No. 2,017,022—granted Oct. 8, 1935 to C. K. Roos
No. 2,044,401—granted June 16, 1936 to C. K. Roos
No. 2,079,338—granted May 4, 1937 to C. K. Roos
No. 2,080,009—granted May 11, 1937 to C. K. Roos

You are requested to desist forthwith from such infringement and to make prompt settlement for past infringement.

We trust that you will let us hear from you promptly in regard to the foregoing.

Yours very truly, Thiess, Olson & Mecklenburger,
By: Arthur A. Olson.

AAO:amo, Registered Mail, Return Receipt Requested.

[fol. 974] BROWN, JACKSON, BOETTCHER & DIENNER
Attorneys and Counselors
Patent and Trademark Law
1550 Monadnock Block
53 W. Jackson Blvd.
Chicago 4

JAD-JC September 23, 1952

Mr. Arthur A. Olson
Thiess, Olson & Mecklenburger
77 West Washington Street
Chicago 2, Illinois

Dear Mr. Olson:

This will acknowledge yours of September 19th with two enclosed forms of license agreements relating to light weight gypsum board. Thank you for sending the same.

At the recent conference which we had with you, we were surprised by your position that our *in situ* operations infringed your client's patents. That position made it necessary for us to consider re-examination of the question of possible infringement, and we wished, at the same time, to consider such other alternatives as might be open to us.

You will appreciate that the inquiry which we made was not a request for a license, but a request for information.

One of the items which is not clear, from the material which you have forwarded to us, is the matter of accounting for alleged past infringement. We assume that any accounting would begin May 15, 1951, the date of the final decree in the anti-trust suit. Is that correct?

Yours very truly,

— —

[fol. 975] THIESS OLSON & MECKLENBURGER
Chicago 2

September 26, 1952

Mr. John A. Dienner
53 West Jackson Blvd.
Chicago 4, Illinois

Dear Mr. Dienner:

Replying to your letter of September 23, the United States Gypsum Company would expect the Kaiser Company to account for the entire period of its infringement.

While the new gypsum board license agreements entered into pursuant to applications under the final decree of May 15, 1951, have been made effective as of the latter date, in each instance our client has reserved all rights of recovery for any infringement prior to that date.

Our client is willing to grant the Kaiser Company licenses in the forms as submitted to you and effective May 15, 1951, but, as stated above, an accounting for the entire period of the infringement will be expected.

Yours very truly, Thiess Olson & Mecklenburger,
By Arthur A. Olson.

[fol. 976] [File endorsement omitted]

IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

[Title omitted]

PETITION OF CERTAIN-TEED PRODUCTS CORPORATION FOR ENFORCEMENT OF COMPLIANCE WITH FINAL DECREE OF MAY 15, 1951—Filed April 22, 1953

Now Comes *Certain-Teed Products Corporation,* a corporation, defendant, and represents to this Court as follows:

1. Your petitioner (hereinafter referred to as "Certain-teed") is one of the defendants to the above-entitled action. United States Gypsum Company (hereinafter referred to as "USG") is also one of the defendants to the above-entitled action.

2. On May 15, 1951, this Court entered its final decree herein, pursuant to the opinion of the Supreme Court handed down on November 7, 1950, *United States* v. *United States Gypsum Company, et al.,* 340 U. S. 76. In and by [fol. 977] said final decree it was provided, among other things, as follows:

"Article II

"5. 'Patent Licenses' shall mean the patent license agreements which were in effect between defendant

United States Gypsum Company and each of the other defendant companies at the time the complaint herein was filed and described in said complaint as follows:

"Agreement dated October 15, 1929, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee;"

"Article IV

"Each of the license agreements listed in Article II hereof is adjudged unlawful under the antitrust laws of the United States and illegal, null and void."

"Article X

"Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith."

3. On October 15, 1929, Certain-teed entered into with USG the license agreement hereinabove referred to, in which it was provided, among other things:

(a) Certain-teed agreed to pay to USG an amount equivalent to 1% of its selling price on all plaster board and gypsum wall board of every kind manufactured and sold by it to the date of the expiration of the last expiring patent issued upon certain applications then pending in the United States Patent Office, including application filed by Carlisle K. Ross, which applica- [fol. 978] tion was granted on October 8, 1935, by the issuance of United States Patent 2017022 to USG, as assignee of said Roos application.

(b) Certain-teed agreed not to sell patented wall board to manufacturing distributors unless USG gave its consent as to each purchaser.

(c) USG reserved the right to fix the minimum price at which Certain-teed sold wall board embodying USG's patents.

(d) The right, license and privilege granted by the license was indivisible and non-exclusive.

(e) USG was granted the right at all reasonable times to inspect the books of account and records of Certain-teed, and Certain-teed agreed to keep separate, full and accurate books of acsount and record showing the exact quantity of plaster board and gypsum wall board manufactured or sold by it.

4. On August 15, 1940, the United States of America, as plaintiff in the above entitled action, filed its complaint herein against USG and Certain-teed and others, charging violations of the Sherman Act. The complaint alleged that defendants were engaged in an unlawful combination to fix prices on patented gypsum board and unpatented gypsum products and to eliminate competition in the gypsum board industry and that such combination was effectuated by substantially uniform patent license agreements between USG and the other defendants manufacturing such products, including the license agreement dated October 15, 1929, between USG and Certain-teed.

[fol. 979] 5. On March 8, 1948, the Supreme Court of the United States reversed the judgment of this Court dismissing plaintiff's complaint, 333 U.S. 64, and held *inter alia* as follows:

(a) From 1929, in which year USG licensed all but two companies manufacturing gypsum board in substantially identical terms, USG maintained rigid control over the price and terms of sale of virtually all gypsum board. Since 1937 the control was complete.

(b) Under bulletins issued by USG the gypsum industry accepted directions defining in minute detail both the prices and terms of sale of patented gypsum board.

(c) Regardless of motive, the Sherman Act bars patent exploitation of the kind that was here attempted. The license agreements and the bulletins

establish the conspiracy of the licensor and licensees to violate the Sherman Act.

(d) Patents grant no privilege to their owners of organizing the use of those patents to monopolize an industry through price control, through royalties for the patents drawn from patent-free industry products, and through regulation of distribution. Here patents have been put to such uses as to collide with the Sherman Act's protection of the public from evil consequences.

(e) The licensor was to fix minimum prices binding both on itself and its licensees; the royalty was to be measured by a percentage of the value of all gypsum products, patented or unpatented; the license could [fol. 980] not be transferred without the licensor's consent; the licensee opened its books of accounts to the licensor; the licensee was protected against competition with more favorable licenses and there was a cancellation clause for failure to live up to the arrangements.

(f) The *General Electric* case gives no support for a patentee, acting in concert with all members of an industry, to issue substantially identical licenses to all members of the industry under the terms of which the industry is completely regimented, the production of competitive unpatented products suppressed, a class of distributors squeezed out, and prices on unpatented products stabilized.

(g) By the record now presented, violation of the Sherman Act is clear.

6. After remand of this action to the District Court, plaintiff moved for summary judgment, which this Court entered on November 7, 1949. Plaintiff and defendant USG appealed to the Supreme Court. The appeal of the latter was dismissed by the Supreme Court, 339 U. S. 960. In its order of dismissal, the Supreme Court affirmed Article III of this Court's decree of November 7, 1949, stating:

" 'The defendant companies have acted in concert in restraint of trade and commerce among the several

states in the eastern territory of the United States to fix, maintain, and control the prices of gypsum board and have monopolized trade and commerce in the gypsum board industry in violation of Sections 1 and 2 of the Sherman Antitrust Act,' is affirmed."

The Supreme Court, pending its further order, also enjoined the corporate defendants from

[fol. 981] "(1) enforcing in any manner whatsoever the provisions of their current license agreements fixing, maintaining, or stabilizing prices of gypsum board or the terms and conditions of sale thereof * * *."

7. On plaintiff's appeal, the Supreme Court, 340 U. S. 76, enlarged the provisions of the decree of this Court entered November 7, 1949, and held:

(a) Price fixing licenses made in knowing concert by standardized price requirements violated the Sherman Act by their very existence.

(b) A trial court, upon a finding of a conspiracy in restraint of trade and a monopoly, has the duty to compel action by the conspirators that will, so far as practicable, cure the effects of the illegal conduct and assure the public freedom from its continuance. The conspirators should, so far as practicable, be denied future benefits from forbidden conduct.

(c) The District Court's decree was inadequate to cure the ill effects of the illegal conduct.

8. On May 15, 1951, pursuant to the second opinion of the Supreme Court, this Court modified its prior decree in accordance therewith and entered its final decree containing the provisions hereinabove set forth.

9. Certain-teed paid all royalties due under its license agreement of October 15, 1929, until the Supreme Court's opinion of March 8, 1948, held such license agreement to be unlawful and invalid. Thereafter, and in conformity with and obedient to the decision of the Supreme Court of the United States, Certain-teed paid no royalties to USG under the unlawful license agreement.

[fol. 982] 10. USG did not inform or advise this Court of any claim to the royalties now claimed by it, nor did it seek to recover such unpaid royalties as a condition to granting the new license provided for in the final decree of this Court. Further, USG did not advise or inform this Court that it claimed such royalties or that it had any right thereto, and, in fact, suppressed and concealed from this Court that it intended to assert any such claim. On November 9, 1951, pursuant to the final decree of this Court, Certain-teed entered into a new license agreement with USG, with royalties thereunder payable from and after May 15, 1951, in which USG licensed Certain-teed under Patent No. 2017022. Certain-teed paid the royalties required of it under said new license agreement until the expiration of said patent on October 8, 1952. No reference was made in said new license agreement to any past due royalties, and no claim therefor was made by USG in the negotiation of the new license agreement. Payments of royalties under the new license agreement were accepted by USG without any reservation of rights or claim to said past due royalties.

11. On March 11, 1953, USG filed suit against Certain-teed in the United States District Court for the Northern District of Iowa, Central Division, seeking to recover past due royalties alleged to be due under the unlawful license agreement of October 15, 1929, for the period between April 1, 1948 and May 15, 1951, copy of which complaint is attached hereto and made a part hereof as Exhibit A. In and by Count I of said complaint USG seeks to enforce the unlawful license agreement of October 15, 1929, to require Certain-teed to pay the royalties provided to be paid there-[fol. 983] under for the period between April 1, 1948 and May 15, 1951. In and by the remaining counts of its complaint, Counts II to V, inclusive, USG seeks to recover such royalties by allegations (1) of agreement to pay the same; (2) repudiation of the license agreement by Certain-teed and acquiescence by USG, with agreement to pay for the use of the patent, by reason of which Certain-teed became indebted to USG; (3) use of the patent and promise to pay for such use, and (4) infringement of said patent by Certain-teed. Said allegations of said Counts II to V, inclusive, of USG's complaint, are contrary to the fact and constitute

an attempt on the part of USG to recover for the value of the use of said patent rather than under the unlawful license agreement. In all of the counts of its complaint the amount claimed by USG from Certain-teed is 1% of Certain-teed's selling price of gypsum board manufactured and sold by it during the period in which no royalties were paid.

12. Said Counts II to V, inclusive, of USG's complaint are a subterfuge and an attempt to recover indirectly the royalties agreed to be paid under the unlawful license agreement, which relief USG seeks by Count I of its complaint to recover directly under said unlawful license agreement.

13. In and by said license agreement of October 15, 1929, it is expressly provided that said agreement shall be indivisible. Certain-teed further alleges that the royalty agreement contained therein is not severable from the price fixing and other provisions thereof which the Supreme Court and this Court by its decree have held to be unlawful under the Anti-Trust Laws of the United States, and illegal, null and void.

[fol. 984] 14. The suit filed by USG against Certain-teed in the District Court for the Northern District of Iowa is, in effect, an attempt to obtain the royalties provided to be paid under said unlawful license agreement, or the equivalent of such royalties in damages. The final decree of this Court in adjudicating said unlawful licenses as illegal, null and void, and the opinions of the Supreme Court to the same effect, prevent and bar USG from enforcing in any manner, directly or indirectly, any provision of said unlawful license. USG cannot treat the royalty provision as separate from other provisions of the license agreement and thus attempt to assert the validity thereof in the face of the final decree of this Court declaring such agreement illegal, null and void. The suit filed by USG against Certain-teed, therefore, is an attempt to circumvent and avoid the decree of this Court.

15. As a matter of law, USG misused its patents, including No. 2017022, upon which it seeks to recover royalties from Certain-teed in the suit filed by it in the District Court for the Northern District of Iowa. Such misuse continued until the execution of the new license agreement dated November 9, 1951, entered into pursuant to the final decree

of this Court, effective as of May 15, 1951. The question of USG's right to collect royalties under its misused patents was inherent in the issues before this Court, and USG was under the duty, if it sought or intended to attempt to recover such royalties, to apply for and secure a determination of this Court that it had terminated its misuse and that the evil consequences thereof had been dissipated, so that it might thereafter enforce its right to collect compensation [fol. 985] for such misused patents. USG, having failed to so apply to this Court, is now barred from claiming such compensation for the period prior to May 15, 1951.

16. The use of its patents by USG in violation of the Sherman Act did not terminate, and the effects thereof were not dissipated until, at the earliest, the entry of the final decree on May 15, 1951, by this Court. Any attempt, therefore, by USG to collect royalties for a period prior to the entry of said final decree herein properly can be made only in this Court.

17. The action filed by USG against Certain-teed in the Northern District of Iowa to recover such past due royalties constitutes a violation of the decree of this Court entered May 15, 1951, and an attempt to circumvent it. Said action seeks the enforcement of the unlawful license agreement directly in the first instance and indirectly through claims for use and infringement, despite the fact that this Court in its said decree held the agreement to be illegal, null and void. If USG is allowed to proceed with its said action, it will be enabled to attempt to recover the benefits of its misused patents contrary to the opinions of the Supreme Court entered on March 8, 1948, and November 27, 1950, and the final decree of this Court. Further, said action filed by USG to enforce the unlawful license agreement, constitutes a direct attack on the final decree entered by this Court on May 15, 1951. By its said action against Certain-teed, USG has made manifest that it is still relying on the license agreement which the Supreme Court on two occasions and this Court by its final decree have held to be illegal, null and void.

[fol. 986] Wherefore, Certain-teed prays that this Court enter its order

1. Temporarily and permanently enjoining USG from

further prosecuting the action heretofore filed by it against Certain-teed in the District Court for the Northern District of Iowa, Central Division;

2. Temporarily and permanently enjoining USG from asserting any claim against Certain-teed for payment for the use of said misused Patent No. 2017022, or any other of its misused patents;

3. Temporarily and permanently enjoining USG from instituting or threatening to institute, or maintaining or continuing any action for payment for the use of any misused patent for any period prior to May 15, 1951;

4. That USG be directed to discontinue and dismiss with prejudice to USG its said pending action against Certain-teed;

5. That Certain-teed may have such further and other relief as to this Court may seem proper.

Clausen, Hirsh & Miller, 135 South LaSalle Street, Chicago 3, Illinois, Attorneys for Petitioner, By Herbert W. Hirsh, Norman A. Miller. Purcell & Nelson, 910 17th Street, N. W., Washington, D. C., Of Counsel, By Ganson Purcell.

April 21, 1953.

[fol. 987] *Duly sworn to by Arthur O. Graves. Jurat omitted in printing.*

[fols. 988-998] EXHIBIT A TO PETITION—Omitted. Printed side page 963 ante.

[fol. 999] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

PETITION OF NEWARK PLASTER COMPANY FOR ORDERS, MODIFICATIONS, OR DIRECTIONS FOR THE ENFORCEMENT, CONSTRUCTION OF CARRYING OUT OF THE FINAL DECREE HEREIN OF MAY 15, 1951—Filed May 16, 1953

The petition of Newark Plaster Company, respectfully shows:

1. Petitioner, Newark Plaster Company (hereinafter referred to as "Newark"), is a defendant in the above entitled action. United States Gypsum Company (hereinafter referred to as "USG"), is also a defendant in the above entitled action.

[fol. 1000] 2. On May 15, 1951, this Court entered the final decree herein which provided in Article IV thereof that, among others, a certain agreement, dated April 23, 1930, between USG and Kelly Plasterboard Company (hereinafter referred to as "Kelly"), which agreement was later, on or about December 31, 1938, assigned by Kelly to Newark "is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void."

3. Theretofore, on March 8, 1948, the Supreme Court had held that "such an agreement in purpose and effect increased the area of the patent monopoly and is invalid."

4. On or about January 30, 1953, USG commenced an action against Newark in the United States District Court for the District of New Jersey, in which USG seeks to obtain, directly and indirectly, the amount of the benefits provided for in the said void license agreement and for the alleged use by Newark of certain patents, all of which were the subject matter of the said void agreement.

5. Upon information and belief, USG has commenced similar actions against National Gypsum Company, a defendant herein (hereinafter referred to as "National"), in the United States District Court for the Northern District of Iowa, Central Division, against Ebsary Gypsum Company, Inc., a defendant herein, in the United States District Court for the Southern District of New York and against

Certain-Teed Products Corporation, a defendant herein, in the United States District Court for the Northern District of Iowa, Central Division. In the said actions, USG seeks to obtain, directly and indirectly, the amount of the benefits provided for in license agreements between USG and the said several defendants similar to the said license agreement of April 23, 1930 between USG and Kelly, all of which license agreements this Court, in its final decree herein, has declared void, and for the alleged use by the [fol. 1001] said several defendants of certain patents, all of which were the subject matter of the said void license agreements.

6. By the said actions referred to in paragraphs 4 and 5 of this petition, USG seeks to circumvent the decree of this Court.

7. Upon information and belief, during the period for which USG seeks to recover as aforesaid from Newark in the said action against Newark the amount of the benefits provided for in the said void license agreement of April 23, 1930 and for the alleged use by Newark of the said patents, USG misused the said patents in the particulars set forth in paragraph 21 of Claim II of the petition herein of National, dated March 25, 1953, which said particulars are incorporated herein by reference with the same force and effect as if herein fully set forth.

8. By Article X of its decree of May 10, 1951, this Court retained jurisdiction of this cause, as follows:

> "Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith."

9. This Court has primary jurisdiction to determine whether or not its decree bars USG from seeking to enforce against Newark, directly or indirectly, the said license agreement which this Court has pronounced void,

or from seeking otherwise to recover, directly or indirectly, [fol. 1002] from Newark the amount of the benefits provided for in the said void license agreement or for the alleged use by Newark of the said patents.

WHEREFORE, petitioner prays:

I. That the Court restrain USG, until this petition is finally determined, from taking any steps in furtherance of any action by it against Newark, or from commencing any new action against Newark in which USG claims, directly or indirectly, the amount of the benefits provided for in the said void license agreement of April 23, 1930, or any amount for the alleged use by Newark of any of the said patents, the subject matter of the said void license agreement.

II. That the Court direct USG to file its answer to the petition of Newark.

III. That the Court, on the basis of the record already made in this Civil Action No. 8017, and on the basis of this petition, other pleadings and all evidence taken pursuant to this petition and the petitions of the other defendants herein, modify its final decree herein by ordering and directing USG to discontinue and dismiss, with prejudice to USG, its pending action against Newark.

IV. That the Court, on the basis of the record already made in this Civil Action No. 8017, and on the basis of this petition, other pleadings and all evidence taken pursuant to this petition and the petitions of the other defendants herein, enjoin USG from asserting, directly or indirectly, any claim against Newark for the amount of the benefits provided for in the said void license agreement or for any amount for the alleged use by Newark of any of the said patents.

[fol. 1003] V. That the petitioner have such further and general relief as may be proper.

May 15, 1953.

De Witt, Pepper & Howell, By: Benjamin P. De Witt,
A member of the firm, Attorneys for Petitioner,
120 Broadway, New York 5, New York.

[fol. 1004] *Duly sworn to by Frderick Tomkins. Jurat omitted in printing.*

[fol. 1005] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

AMENDMENT TO DESIGNATION OF JUDGES—May 6, 1953

The Honorable Joseph R. Jackson having retired as a Judge of the United States Court of Customs and Patent Appeals on April 1, 1952, it is necessary because of pending matters in the above-entitled case to amend the original designation of Judges herein dated September 15, 1942, to hear and determine the above-entitled case so as to provide for the replacement of the Honorable Joseph R. Jackson by a District Judge.

Now, therefore, pursuant to the authority vested in me by Section 28 of Title 15, United States Code, I hereby amend said designation of September 15, 1942, by designating the Honorable William P. Cole, Jr., heretofore designated by the Chief Justice of the United States to serve as a Judge of the United States District Court for the District of Columbia, in the place and stead of the Honorable Joseph R. Jackson to hear and determine the above-entitled case.

Dated: May 6, 1953.

Harold M. Stephens, Chief Judge of the District of Columbia Circuit.

[fol. 1005-A] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

PETITION OF EBSARY GYPSUM COMPANY, INC. FOR ORDERS, MODIFICATIONS, OR DIRECTIONS FOR THE ENFORCEMENT, CONSTRUCTION OR CARRYING OUT OF THE FINAL DECREE HEREIN OF MAY 15, 1951—Filed June 6, 1953

The petition of Ebsary Gypsum Company, Inc., respectfully shows:

1. Petitioner, Ebsary Gypsum Company, Inc. (hereinafter referred to as "Ebsary"), is a defendant in the above en-

titled action. United States Gypsum Company (hereinafter referred to as "USG"), is also a defendant in the above entitled action.

2. On May 15, 1951, this Court entered the final decree herein which provided in Article IV thereof that, among [fol. 1005-B] others, a certain agreement, dated October 18, 1929, between USG and Ebsary "is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void".

3. Therefore, on March 8, 1948, the Supreme Court had held that "such an agreement in purpose and effect increased the area of the patent monopoly and is invalid".

4. On or about February 27, 1953, USG commenced an action against Ebsary in the United States District Court for the Southern District of New York, in which USG seeks to obtain, directly and indirectly, the amount of the benefits provided for in the said void license agreement and for the alleged use by Ebsary of certain patents, all of which were the subject matter of the said void agreement.

5. Upon information and belief, USG has commenced similar actions against National Gypsum Company, a defendant herein (hereinafter referred to as "National"), in the United States District Court for the Northern District of Iowa, Central Division against Newark Plaster Company, a defendant herein, in the United States District Court for the District of New Jersey and against Certain-Teed Products Corporation, a defendant herein, in the United States District Court for the Northern District of Iowa, Central Division. In the said actions, USG seeks to obtain, directly and indirectly, the amount of the benefits provided for in license agreements between USG and the said several defendants similar to the said license agreement of October 18, 1929 between USG and Ebsary, all of which license agreements this Court, in its final decree herein, has declared void, and for the alleged use by the said several defendants of certain patents, all of which were the subject matter of the said void license agreements.

6. By the said actions referred to in paragraphs 4 and 5 of this petition, USG seeks to circumvent the decree of this Court.

[fol. 1005C] 7. Upon information and belief, during the period for which USG seeks to recover as aforesaid from Ebsary in the said action against Ebsary the amount of the benefits provided for in the said void license agreement of October 18, 1929, and for the alleged use by Ebsary of the said patents, USG misused the said patents in the particulars set forth in paragraph 21 of Claim II of the petition herein of National, dated March 25, 1953, which said particulars are incorporated herein by reference with the same force and effect as if herein fully set forth.

8. By Article X of its decree of May 10, 1951, this Court retained jurisdiction of this cause, as follows:

> "Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith."

9. This Court has primary jurisdiction to determine whether or not its decree bars USG from seeking to enforce against Ebsary, directly or indirectly, the said license agreement which this Court has pronounced void, or from seeking otherwise to recover, directly or indirectly, from Ebsary the amount of the benefits provided for in the said void license agreement or for the alleged use by Ebsary of the said patents.

Wherefore, petitioner prays:

I. That the Court restrain USG, until this petition is finally determined, from taking any steps in furtherance of any action by it against Ebsary, or from commencing any new action against Ebsary in which USG claims, directly or indirectly, the amount of the benefits provided for in the said void license agreement of October 18, 1929, or any [fol. 1005D] amount for the alleged use by Ebsary of any of the said patents, the subject matter of the said void license agreement.

II. That the Court direct USG to file its answer to the petition of Ebsary.

III. That the Court, on the basis of the record already made in this Civil Action No. 8017, and on the basis of this petition, other pleadings and all evidence taken pursuant to this petition and the petitions of the other defendants herein, modify its final decree herein by ordering and directing USG to discontinue and dismiss, with prejudice to USG, its pending action against Ebsary.

IV. That the Court, on the basis of the record already made in this Civil Action No. 8017, and on the basis of this petition, other pleadings and all evidence taken pursuant to this petition and the petitions of the other defendants herein, enjoin USG from asserting, directly or indirectly, any claim against Ebsary for the amount of the benefits provided for in the said void license agreement or for any amount for the alleged use by Ebsary of any of the said patents.

V. That the petitioner have such further and general relief as may be proper.

June 3, 1953.

Joseph S. Rippey, Attorney for Petitioner, 612 Powers Building. Rochester 14, New York.

[fol. 1005E] *Duly sworn to by Frank W. Allen. Jurat omitted in printing.*

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1956

No. 11

UNITED STATES GYPSUM COMPANY, APPELLANT,

vs.

NATIONAL GYPSUM COMPANY, ET AL.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

VOL. II

INDEX

Record from the United States District Court for the District of Columbia—Continued	Original	Print
Reporter's transcript of prehearing conference of June 9, 1953	1006	673
Appearances	1006	673
Colloquy between Court and counsel	1008	674
Amended answer of National Gypsum Co., filed in USDC, Northern Iowa, in United States Gypsum Company v. National Gypsum Company	1065	710
Answer of Certain-teed Products Corporation filed in USDC, Northern Iowa, in United States Gypsum Company v. Certain-teed Products Corporation	1083	725
Petition of United States for orders or directions for the construction, carrying out or enforcement of the final decree of May 15, 1951	1101	739
Motion of Certain-teed Products Corporation for stay of proceedings filed in USDC, Northern Iowa, in United States Gypsum Company v. Certain-teed Products Corporation	1109	741

JUDD & DETWEILER (INC.), PRINTERS, WASHINGTON, D. C., JULY 18, 1956

—317-8

Record from the United States District Court for the District of Columbia—Continued	Original	Print
Plaintiff's statement with respect to defendant's motion for stay filed in USDC, Northern Iowa, in United States Gypsum Company v. Certain-teed Products Corporation	1119	748
Exhibit "A"—Petition of United States filed in USDC, District of Columbia in U.S. v. U.S. Gypsum Co. et al.	1126	756
Plaintiff's statement with respect to defendant's motion for stay filed in USDC, Northern Iowa, in United States Gypsum Co. v. National Gypsum Company	1129	759
Exhibit "A"—(Copy)...(omitted in printing)..	1136	
Order granting motion for stay of proceedings by USDC, Northern Iowa, in case of United States Gypsum Company v. National Gypsum Company..	1139	766
Amendment to complaint filed in USDC, Northern Iowa in United States Gypsum Company v. National Gypsum Company	1143	769
Order granting motion for stay of proceedings by USDC, Northern Iowa in United States Gypsum Company v. Certain-teed Products Corporation....	1149	773
Extract from brief of Certain-teed Products Corporation in support of its petition for enforcement of compliance with final decree of May 15, 1951...	1151	774
Extracts from brief of National Gypsum Company on petition for orders, modifications or directions for the enforcement, construction or carrying out of the final decree of May 15, 1951	1153	775
Answers of United States Gypsum Company to the petitions of National Gypsum Company, Certain-teed Products Corporation, Newark Plaster Company, Ebsary Gypsum Company, Inc. and United States of America	1157a	777
Extracts from brief of United States Gypsum Company in answer to the briefs filed by defendant petitioners	1206	812
Extracts from brief of the United States	1284	814
Revocation of designation of Circuit Judge Harold M. Stephens, and designation of Circuit Judge Kimbrough Stone, retired, to replace Circuit Judge Harold M. Stephens as a member of the Court	1288	817
Amendment to above designation of Judges	1290	818

	Original	Print
Record from the United States District Court for the District of Columbia—Continued		
Reporter's transcript of hearing on petitions of National, et al., January 12, 1954	1291	819
Appearances	1291	819
Argument on behalf of National Gypsum Company (Mr. Rosenman)	1297	823
Argument on behalf of Certain-teed Products Corporation (Mr. Miller)	1367	866
Argument on behalf of Newark Plaster Company (Mr. DeWitt)	1373	870
Argument on behalf of Ebsary Gypsum Company (Mr. Rippey)	1382	875
Argument on behalf of the United States (Mr. Knuff)	1386	877
Argument on behalf of United States Gypsum Company (Mr. Spray)	1394	882
Reporter's transcript of hearing on petitions of National, et al., January 13, 1954	1426	901
Appearances	1426	901
Argument on behalf of United States Gypsum Company (continued) (Mr. Spray)	1428	902
Argument on behalf of United States Gypsum Company (Mr. Bromley)	1478	932
Rebuttal argument on behalf of National Gypsum Company (Mr. Rosenman)	1510	953
Rebuttal argument on behalf of Newark Plaster Company (Mr. DeWitt)	1529	965
Rebuttal argument on behalf of the United States (Mr. Knuff)	1540	972
Majority opinion, Stone, C. J.	1544	975
Dissenting opinion, Cole, J.	1591	1015
Findings of fact, conclusions of law, and decree proposed by National Gypsum Company and by Certain-teed Products Corporation	1596	1019
Memorandum of Newark and Ebsary adopting National's proposed findings, etc.	1618	1036
United States Gypsum Company's objections and suggestions with respect to petitioners' proposed findings of fact, conclusions of law, and decree	1619	1037
National Gypsum Company's memorandum in answer to United States Gypsum Company's objections and suggestions with respect to petitioner's proposed findings of fact, conclusions of law and decree	1704	1115
Motion of United States Gypsum Company for reconsideration re opinion of July 6, 1954	1721	1127

	Original	Print
Record from the United States District Court for the District of Columbia—Continued		
Memorandum of Newark Plaster Company and Ebsary Gypsum Company, Inc., in answer to United States Gypsum Company's objections and suggestions with respect to petitioners' proposed findings of fact, conclusions of law and decree	1725	1130
Order denying U.S. Gypsum's objections to petitioners' proposed findings, etc., and motion for reconsideration	1733	1135
Memorandum opinion re objections and motion for reconsideration	1734	1136
Findings of fact	1742	1144
Conclusions of law	1755	1155
Order of majority adopting findings and conclusions	1758	1158
Order of Cole, J., dissenting from findings and conclusions	1759	1158
Decree by majority with dissent by Cole, J.	1760	1159
Motion of U. S. Gypsum Co., for new trial	1762	1160
Points and authorities in support of U.S. Gypsum Company's motion for new trial	1766	1163
Statement of National Gypsum Company and Certain-teed Products Corporation in opposition to United States Gypsum Company's motion for new trial	1800	1193
Appendix "A"	1814	1205
Reply of petitioners, Newark Plaster Company and Ebsary Gypsum Company, Inc., in opposition to the motion of United States Gypsum Company for a new trial	1816	1207
Reply of United States Gypsum Company to petitioners' statement in opposition to its motion for new trial	1819	1208
Reporter's transcript of hearing on motion for new trial—April 26, 1955	1826	1214
Appearances	1826	1215
Argument on behalf of United States Gypsum Company (Mr. Spray)	1829	1216
Argument on behalf of United States Gypsum Company (Mr. Bromley)	1872	1245
Argument on behalf of National Gypsum Company (Mr. Rosenman)	1899	1262
Argument on behalf of Certain-teed Products Corporation (Mr. Miller)	1960	1301
Argument on behalf of Newark Plaster Company (Mr. DeWitt)	1963	1302
Argument on behalf of Ebsary Gypsum Company (Mr. Rippey)	1984	1316
Rebuttal argument on behalf of United States Gypsum Company (Mr. Spray)	1989	1319

	Original	Print
Record from the United States District Court for the District of Columbia—Continued		
Reporter's transcript of hearing on motion for new trial—April 26, 1955—Continued		
Rebuttal argument on behalf of United States Gypsum Company (Mr. Bromley)	2004	1330
Order denying motion for new trial (with dissent)	2013	1335
Memorandum opinion re denial of motion for new trial	2014	1336
Order to certify and transmit original documents	2017	1337
Order staying decree of December 9, 1954 and fixing bond	2018	1338
Supersedeas bond on appeal	2019	1339
Notice of appeal to the Supreme Court of the United States	2021	1340
Certificate of service of notice of appeal	2034	1356
Order noting probable jurisdiction	2035	1357

[fol. 1006] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

Holding a Three-Judge Court

Civil Action No. 8017

UNITED STATES OF AMERICA, Plaintiff,

v.

UNITED STATES GYPSUM COMPANY, ET AL., Defendants

Reporter's Transcript of Prehearing Conference of June 9, 1953

Court Room, United States Court of Appeals,
United States Court House,
Washington, D. C.
Tuesday, June 9, 1953.

The above-entitled cause came on for prehearing conference on petitions of National Gypsum Company, Certain-Teed Products Corporation, Ebsary Gypsum Company, Inc., and Newark Plaster Company, at 10:00 a. m., pursuant to notice, before Honorable Harold M. Stephens, Honorable Finis J. Garrett, and Honorable William P. Cole, Jr., sitting as the District Court of the United States for the District of Columbia.

APPEARANCES:

Edward Knuff, Esq., Special Assistant to the Attorney General; and

Vincent A. Gorman, Esq., and Lawrence Gochberg, Esq., Trial Attorneys, on behalf of the United States of America.
[fol. 1007] Cranston Spray, Esq., Robert Keck, Esq., and Hugh Lynch, Jr., Esq., on behalf of United States Gypsum Company.

Seymour Krieger, Esq., Samuel I. Rosenman, Esq., and Elmer E. Finck, Esq., on behalf of National Gypsum Company.

Norman A. Miller, Esq., Herbert W. Hirsh, Esq., and C. Roger Nelson, Esq., on behalf of Certain-Teed Products Corporation.

Albert E. Hallett, Esq., on behalf of The Celotex Corporation.

Joseph S. Rippey, Esq., on behalf of Ebsary Gypsum Company, Inc.

Benjamin P. De Witt, Esq., on behalf of Newark Plaster Company.

[fol. 1008] COLLOQUY BETWEEN COURT AND COUNSEL ON PREHEARING CONFERENCE

Chief Judge Stephens: This is a prehearing conference in Civil Action No. 8017 on the actions on petitions filed by the National Gypsum Company, Newark Plaster Company, Ebsary Gypsum Company, and Certain-Teed Products Corporation against the United States Gypsum Company.

Are counsel for the various petitioners all present? Is each of the petitioners represented?

Mr. Rosenman: National is represented, sir.

Mr. Krieger: Yes, sir.

Chief Judge Stephens: Will you introduce yourselves, gentlemen.

Mr. Krieger: My name is Seymour Krieger. I am Washington counsel for National Gypsum Company.

Chief Judge Stephens: Is Mr. Finck here?

Mr. Finck: Yes, I am here, Your Honor.

Mr. DeWitt: My name is DeWitt. I represent the Newark Plaster Company.

Chief Judge Stephens: You represent Newark.

Mr. Rippey: My name is Rippey. I represent the Ebsary Gypsum Company.

Mr. Miller: My name is Miller. I represent Certain-Teed.

Chief Judge Stephens: Mr. Lynch, you are here for United States Gypsum Company?

Mr. Lynch: Yes, sir.

[fol. 1009] Chief Judge Stephens: Mr. Spray also?

Mr. Spray: Yes, sir, and Mr. Keck.

Mr. Hallett: My name is Hallett of Dallstream, Schiff, Stern and Hardin, and I represent the Celotex Company. And if there will be time, I would like to explain our situation.

Chief Judge Stephens: Celotex has not filed a petition, has it?

Mr. Hallett: No.

Chief Judge Stephens: We will hear from you later. I just wanted to find out whether you had filed a petition.

Mr. Hallett: It will only take a minute. No, we did not, and I will explain why.

Chief Judge Stephens. Is there anyone else?

Mr. Nelson: C. Roger Nelson, Your Honor. I appear as local counsel for Certain-Teed Products, associated with Mr. Miller.

Chief Judge Stephens: This conference has been called for preliminary purposes, a prehearing conference, to find out what the issues are and to hear the petitioners with reference to their apparent desire for preliminary injunction pending the action to hear what the theories of the case are and the thories of the defense, and to make such arrangements as seem suitable for bringing the case on for hearing.

We will hear first from counsel for the National Gypsum Company.

The United States is represented also, Mr. Knuff?

[fol. 1010] Mr. Knuff: Yes, Your Honor. I am here representing the United States, and Mr. Gorman and Mr. Gochberg will assist me.

Chief Judge Stephens: Very well.

Mr. Krieger: I would like to present and move the admission of Samuel Rosenman, member of the Bar of New York, to speak on behalf of National Gypsum.

Chief Judge Stephens: He will be admitted.

You may proceed, Mr. Rosenman.

Mr. Rosenman: Yes, sir.

We have filed this petition, may it please the Court for the purpose of implementing the decree of this court entered in 1951, with which at least two of Your Honors are thoroughly familiar. It is our contention, sir, that under this decree, this court should enjoin the defendant, the U. S. Gypsum Company, from prosecuting a certain suit which is pending against other defendants, including my client.

The suit which the United States Gypsum Company has brought against my client is now pending in the Northern

District of Iowa. We have filed this petition with Your Honors to enjoin the prosecution of that suit, on the ground that it is in disregard of the decree of this court and of the opinions of the Supreme Court of the United States which have declared the licenses under which this suit is brought in Iowa to be illegal, null and void; and it is our contention that under the terms of that opinion and under the specific terms of the decree of this court the defendant U.S. Gyp-[fol. 1011] sum Company is barred from prosecuting that suit. It is barred not only because of the holding of this court and of the Supreme Court of the United States that these patent license agreements were illegal, null and void, but because of the misuse of the patents, a misuse which this court in its decree has condemned. The suit for royalties in Iowa is a continuation of the misuse of the patents under our contentions, and we believe is a violation of what was intended by the decree of this Court in holding that the licenses themselves were null and void.

We have brought this petition, sirs, in two claims. One concerns solely a question of law which I have just stated, and if Your Honors agree with our contention under Claim No. 1 of our petition, there would be no need for going into Claim No. 2.

Claim No. 2 is based upon a misuse of the patents and upon a contention that the conduct of U.S. Gypsum Company has precluded it from bringing any action for royalties. Under Claim No. 2 there will be questions of fact, perhaps. Under Claim No. 1 we urge that there are no questions of fact, but solely questions of law.

Chief Judge Stephens: What is the nature of Claim 1?

Mr. Rosenman: Claim 1, sir, is that the decree of this court is being violated as a matter of law by reason of the fact that the decree of this court held that these patent licenses were null and void and had been misused, and therefore, that the defendant Gypsum Company is barred from bringing any action to enforce these licenses in other [fol. 1012] courts of the country.

It has brought a number of actions, one in New York, one in Iowa, and one in New Jersey.

Chief Judge Stephens: That, I think will involve no

questions of act because there will be no dispute about the fact of these cases having been filed?

Mr. Rosenman: Having been filed; and there will be no dispute about the decree.

Chief Judge Stephens: And do you have a third claim?

Mr. Rosenman: The second claim.

Chief Judge Stephens: Is there a third?

Mr. Rosenman: No, sir. The second claim is set out on page 9 of our petition.

Chief Judge Stephens: We have all read this petition. We also have read the attached exhibits. Tell me, what are the theories of the five counts of the Gypsum Company suit against National?

Mr. Rosenman: So far as we have been able to determine, sir, and we have only the complaint to go by, the first four counts depend upon alleged contracts between U.S. Gypsum Company and National Gypsum Company. Counts 1 and 2 refer to the original patent license agreement between U.S. Gypsum and National Gypsum, and we contend that these are barred because they have been declared to be illegal by this court. We do not know, but we think that No. 2 is a quantum meruit. No. 1 is the express contract. [fol. 1013] No. 2 is a quantum meruit. Nos. 3 and 4 allege agreements which were entered into on February 1, 1948, which was when the Supreme Court of the United States first declared these contracts illegal, and we do not know whether there are being alleged here some supplemental contracts actually entered into, which we deny making, or whether they are alleging contracts implied in law.

Count 5 of the complaint deals with a straight infringement-of-patent case. It is based entirely on the claim that during the period between the first United States Supreme Court decision and the date of the decree of this court, we, National Gypsum, infringed the patents of U.S. Gypsum.

Chief Judge Stephens: What questions of fact will probably arise under your second claim?

Mr. Rosenman: The question of fact would be whether or not there has been any purge of the misuse of these patents by U.S. Gypsum. We contend that there has not been. On the contrary, we contend that the misuse con-

tinued up to the very date of the decree. After the decree the misuse stopped, and as Your Honors know, satisfactory royalty arrangements were entered into.

It is our contention that these patents were misused, and we would contend that even if Your Honors do not agree with our contention of the law, as a question of fact there has been a misuse of the patents, and that the defendant U.S. Gypsum Company has never complied with the doctrine of the Morton Salt case, anticipating the effects of [fol. 1014] the misuse, nor has it terminated the misuse.

Now, that might give rise to some questions of fact. We do not know.

Chief Judge Stephens: In determining the question of fact relating to the purge or no purge, have you any estimate as to how many witnesses will be called, or whether the factual issues will be determined upon documentary evidence, or what?

Mr. Rosenman: It is difficult for me to answer that question, Your Honor, because I do not know whether they would really deny paragraph 21 of our complaint. I have no way of telling.

Chief Judge Stephens: Is there anything further?

Mr. Rosenman: I would like to state to Your Honor what we would hope would come out of this conference, if I may, if this is the time to do it.

Chief Judge Stephens: Very well.

Mr. Rosenman: We would like very much to ask Your Honors to try to dispose of these questions of law with such expedition as suits Your Honors' convenience. I do not know whether Your Honors have been informed, but we have filed a notice of motion for a stay in the Iowa court awaiting the determination by this court of these questions of law. We should like very much to ask Your Honors to direct all parties who want to file any petitions or papers of any kind which are consistent with the position taken by my client to do so within a short time. We would [fol. 1015] suggest, if I may be presumptuous enough to suggest the time, that that might be done within a week, and that thereafter, two or three weeks be permitted for answers by U.S. Gypsum and any other parties who wish to take an adversary position to that taken by my client,

and that thereafter Your Honors set down some times for briefs on these questions of law and permit us to argue this, if Your Honors' convenience would suit it, sometime in July.

That would be the request that we make. Of course, Your Honors' convenience will have to determine that. But we would earnestly petition Your Honors to enable us to present these questions of law to you in brief and in oral argument, as I say, with as much expedition as suits Your Honors' convenience.

Chief Judge Stephens: I did not understand you on one point. For what purpose did you suggest that a week should be allowed?

Mr. Rosenman: For the United States Government or anyone who wishes to file a petition consistent with our own to do that promptly and then permit answers to the various petitions of Certain-Teed and National, and if the United States Government files a petition, the United States Government.

Chief Judge Stephens: Thank you, Mr. Rosenman.

We will hear next from Ebsary, Mr. Rippey.

Mr. Rippey: If the Court please, the complaint against the Ebsary Company is similar to that against National, with the exception that there is one additional count, Count 6, which is on a new patent. The Ebsary Company [fol. 1016] did not take a new license agreement after the decree of this court, whereas National did. That sixth count is for patent infringement. Aside from that the first five are similar.

The petition asks for an injunction against present and future suits by U.S.G. of this nature, and a direction that they discontinue the present suit. The Ebsary action now pending is in the District Court for the Southern District of New York.

Now, if the United States Gypsum concedes that this court has superior jurisdiction, which we believe that it does, being constituted as a special court, then the relief of the petitioners should be granted. On the other hand, we do not know the position at this point of the United States Gypsum Company. If they deny the jurisdiction

of this court to handle the matter, then the ordinary procedure is that they should answer the petition.

In any event, we believe that there should be a temporary injunction.

Now, there may otherwise be a multiplicity of suits. There are already four. The calendar of the Southern District of New York I understand to be congested and behind. It may be necessary, in the defense of the suits, for us to call witnesses from the other companies, so that it may be that we will have four or more trials substantially alike.

We believe that this matter should be disposed of in this court, and not in various districts throughout the country. [fol. 1017] Chief Judge Stephens: Newark Plaster, Mr. DeWitt.

Mr. DeWitt: If the Court please, the position of Newark Plaster Company in some respects is the same as that of the National Gypsum Company. In other respects it is somewhat different.

An action has been brought against Newark Plaster Company in the District Court for the District of New Jersey. The claims made in that suit are substantially the same as those made in the action brought against Ebsary Gypsum Company in the Southern District of New York.

Unlike the action brought against the National Gypsum Company, a claim is made in our suit that we have infringed an additional patent which did not enter into the litigation in this case.

We are in a somewhat different position from National Gypsum Company, in that Newark Plaster Company during the period for which it is now being sued, claims that it did not make any use of these patents. We had a different process under which we manufactured gypsum board, a Urak proceed. And during this very period for which we are now sued, we claim that we were not using any of the patents of U.S. Gypsum Company.

So if our position in that respect is correct, the U.S. Gypsum Company is in the position now of suing us during this period for royalties on boards manufactured under a totally different patent. I do not know that that issue will come up in these proceedings. I mention it only because

[fol. 1018] it distinguishes our case somewhat from that of National Gypsum Company.

We take, therefore, the same position that National Gypsum Company takes, namely, that these license agreements have been declared null and void. Having been declared null and void, we contend that U.S. Gypsum cannot recover any royalties against us under those license agreements.

We did not, as did National Gypsum Company, take out any license under the Roos patent after this court handed down its decree. Your Honors will recall that provision was made in the decree for U.S. Gypsum Company to grant licenses. We did not take any license at that time because, as I said before, we were not using any of the U.S.G. patents.

Chief Judge Stephens: Certain-Teed?

Mr. Miller: The position of Certain-Teed is almost exactly parallel with that of National Gypsum. We did take a license, as did National Gypsum, of the basic bubble foam patent after the entry of this court's decree on May 15, 1951. We also were sued in the District Court for the Northern District of Iowa, and have answered in that suit.

We have also filed a petition here which in large part is based upon the same theory as the petition filed by National Gypsum Company. The only point of divergence, if there is any, is on the ground that, even as to the purge, in our opinion, that also is a question of law which can be decided by this court without the taking of evidence on that question.

[fol. 1019] We have not, therefore, filed two separate claims as has National Gypsum Company, in our petition, but have based it almost entirely on the view that this court's decree prevents any action by U.S. Gypsum to collect royalties for the period between the date of the first Supreme Court opinion and this court's decree of May 15, 1951.

Generally I think the other parties have stated the position that Certain-Teed will take in this matter.

Judge Cole: I find a copy of the complaint filed against Certain-Teed in the Northern District of Iowa, but not the answer. You say you filed an answer?

Mr. Miller: Yes, we did, if Your Honor please. I have copies available here which I will give to the clerk.

Chief Judge Stephens: Furnish the clerk with one copy for each of us, please, and one for the clerk.

Judge Garrett: Do we have a copy of the bill of complaint in Iowa?

Chief Judge Stephens: Yes. That was in your file.

Mr. Rosenman: National has also filed an answer, Your Honors, in Iowa, subsequent to the date of the filing of this petition. If Your Honors desire, we can file copies of that answer here.

Chief Judge Stephens: Yes. We shall be glad to have all papers that have been filed, one for the clerk's office and one for each of the Judges. Thank you, Mr. Rosenman.

Now, do each of the parties who are petitioners seek a [fol. 1020] preliminary injunction pending the disposition of this case? Mr. DeWitt and Mr. Rippey, you all seek a preliminary injunction, do you?

Mr. Rippey: Yes, sir.

Mr. Rosenman: Speaking for National, sir, if by "preliminary injunction" Your Honor means a temporary restraining order effective immediately, National is not requesting that. We think that the orderly procedure is the one that we are following, namely, to apply in Iowa, in the jurisdiction where the complaint has been filed, for a stay there, and we are not pressing at this point for a temporary restraining order. We think that we are following the procedure outlined by the comity of jurisdictions, and we are applying in Iowa for a stay. If we are denied that relief there we can come, of course, we reserve the right to come to Your Honors for such a stay. But at present, speaking for National, while we are asking for a temporary injunction on the merits finally after argument we are not now asking for a temporary restraining order.

Chief Judge Stephens: That is what I had in mind.

Do Ebsary, Certain-Teed, and Newark ask for a temporary restraining order?

Mr. DeWitt: Our position in that respect is the same as that of National. We have applied in the District Court of New Jersey for a stay. We do not care where the stay originates so long as we get it, because we think that it is

[fol. 1021] senseless to duplicate this litigation in all these District Courts and here as well.

So we shall ask the court in Newark for a stay, and failing to obtain one there, apply to Your Honors.

Chief Judge Stephens: And Ebsary?

Mr. Rippey: Your Honor, we want also a stay from some place. Our intention was to apply to the Southern District of New York court on that, at this time.

Chief Judge Stephens: Certain-Teed?

Mr. Miller: Our position is the same as that of National. We intend to file a motion for stay in the Iowa court, but reserve our right to appear here.

Chief Judge Stephens: Celotex?

Mr. Hallett: I wanted to explain our situation. It will only take a minute or so.

Chief Judge Stephens: Take your time.

Mr. Hallett: When Mr. Spray of United States Gypsum discussed the possibility that he wanted us to pay him for these royalties, we told him—I was authorized by the president of Celotex and by its directors to tell Mr. Spray—that he need not sue us. And we set that fund up, that money. It is still there. In fact, we are having trouble. The income tax department would like us to pay an income tax on it. So I am sure that it is still there.

We told him that we would abide the outcome of these other suits. Factually, we are in the same situation as Na-[fol. 1022] tional Gypsum and the other three, except that we are rather on the small side in so far as the amount due is concerned. I want to advise you that indirectly we are a party to these petitions, because what happens here will affect us, but we are not in actual litigation.

Is that correct, Mr. Spray?

Mr. Spray: That is a correct statement, yes, sir.

Chief Judge Stephens: Mr. Knuff, for the Government?

In there anyone else for any of the private parties?

Apparently not.

Mr. Knuff: With Your Honors' permission, I would like to make it clear that from the fact that the Government has not formalized its position on the record, no inference should be drawn one way or the other that the Government favors one form of relief as against the other.

We have had in the Department this matter up for consideration for some time, as to what our position should be. The question is not without its great difficulties, and up until the present time, the Department has not made up its mind as to the position that we will take in the matter.

During the past month or so, various parties to this proceeding have come in to see us and present the views that they think we should take. We have listened to their contentions, and the last party that came in was only in on last Wednesday. I am sure that at least one member of [fol. 1023] the court recognizes the tremendous responsibilities that a new Assistant Attorney General assumes when he come- in to head up a department of the Department of Justice. For that reason it is almost impossible for Judge Barnes to give this matter the attention that it deserves consistent with the other work that he has had.

I will say that we will formalize our position on the record in a formal pleading. Now, I do not know whether this is the time for me to reply to Judge Rosenman's contention concerning the time. If it is, I will; if it is not, I will delay that.

Chief Judge Stephens: I was going to ask you that in the next question. How much time will you need to formalize your position and file pleadings?

Mr. Knuff: I can readily understand that Judge Rosenman's position is that we should do this within a week. We have had this matter up in the Department as to what time we think we need. We do not think that we can formalize the action that we are going to take much before the 30th of this month. We will try to do so. But we do not believe it to be possible for us to get the necessary pleadings prepared before the 30th.

Chief Judge Stephens: Thank you, Mr. Knuff. Mr. Lynch?

Mr. Lynch: Mr. Spray will speak for the United States Gypsum Company.

Chief Judge Stephens: Mr. Spray.

Mr. Spray: May it please the court, I will speak for the United States Gypsum Company in Judge Brownley's [fol. 1024] absence this — He is on vacation. I talked with

him Saturday, and while he said that if I insisted, he would come on for this hearing, knowing how difficult it is for lawyers to get on vacation and how hard to stay there sometimes when they get on and having in mind the limited purpose of this hearing as I understood it, I did not feel justified in asking him to take a couple of days away from a much needed vacation to be here.

However, what I say I know is in accord with his views on the matter.

At the outset, I want to make crystal clear one or two points. In the first place, neither the United States Gypsum Company nor any of its attorneys would knowingly take any action in violation of an order of this court. We have tried conscientiously to respect and abide by every order which has been entered by this court. We are confident that we have not deviated from our determination in that respect in the bringing of these suits, and that upon a complete consideration of the matter this court will be completely satisfied that the action which we were forced to take to avoid forfeiting this substantial amount which our client feels is due it for the actual use of its patents during this period, was in no respect, either directly or indirectly, in contradiction of or in violation of this court's decree of May 15, 1951.

In the second place, I want to make it clear that neither the company nor any of its attorneys have any fear of [fol. 1025] presentation of this matter to this court. Nor do we wish to appear to be avoiding or trying to avoid this court's determination on these questions, if the court is satisfied that it has jurisdiction and if it is disposed to consider the matter.

We do think there are some questions there which are serious and which the court will want to consider and which I will refer to somewhat later this morning.

I think it is somewhat necessary for me to state a little of the background of these suits so that there may be no misunderstanding at the outset about them. And in doing that, I think I can clear up some of the questions which appear to be in Judge Rosenman's mind as to these five counts, which it is quite obvious are not clearly understood.

This court, of course, was fully aware of the facts surrounding these license agreements as they were developed in the trial of this case antedating the actual entering of the licenses, the litigation back there, the settlement of that litigation, the license agreements, the operation under the licenses—everything in its most intimate detail down through 1941, which I believe is where the evidence in this case stopped.

Our trial was concluded in April of 1944, but I think that the evidence did not go much beyond the year 1941, if at all.

When the first Supreme Court decision came down on March 8, 1948, it was quite a shock to both the licensor and its licensees, and it had a very definite effect on the [fol. 1026] operation under these license agreements.

As this court knows, from one of its prior findings, there had not been any price fixing under these licenses since July 8, 1941. Nevertheless, the parties continued to operate under them. The licensees made their reports and paid their royalty, and we had made the audits which we were entitled to make periodically to see that we were getting our full royalties.

But when the Supreme Court rendered its decision on March 8, 1948, we were all very much puzzled, and there was much doubt as to just what that decision meant. And I dare say that in the years to come as lawyers meet, there will still be questions raised as to just what was meant in that decision.

We felt that it could not possibly mean anything other than that a prima facie case had been made. The Government took a different position. Nobody, neither the licensor or the licensees, desired to be taking any step that might be considered in disrespect of or in violation of the views of the Supreme Court.

As a result, we stopped in our tracks. We stopped in our tracks under those licenses. The licensees ceased making reports and ceased paying royalty, and we made no effort whatsoever to enforce the license or to compel them to pay us royalties under the licenses. There was, I think, an abandonment of the licenses at that point, and I believe they were repudiated certainly by the licensees, and we

[fol. 1027] acquiesced in the repudiation, and there was, by act of the parties, a rescission of those licenses back at that point.

Nevertheless, the licensees continued to use our patents, with certainly our understanding that for the actual use of the patents we would be paid a reasonable compensation. That certainly was the understanding of the licensees in the early stages of this period, although before the period was over, there were some rumors that indicated some feeling that the Katzinger case and the MacGregor case might make it possible for them to avoid paying royalties. Nevertheless, we continued at all times to take the position that if our property was used, we expected them to pay for it.

As this court knows, during the period that we are talking about, from 1948 to 1951, we did file with the court revised forms of licenses which we were willing to enter into which eliminated all price fixing and all the provisions that were objectionable in the other licenses, and those were the forms of license agreements that were approved by this court when it entered its decree of November 7, 1949. But no licenses were granted under that.

We come to the May 15, 1951, decree, which called upon us to grant licenses at a reasonable royalty to anyone who might apply for them.

Following that time, National, Certain-Teed and Celotex did make application for licenses. We were confronted [fol. 1028] then with the proposition of this use that had not been paid for. We concluded that we would take no action that could possibly be considered failure to comply strictly with this court's position, and so we granted those licenses without reference to this amount that was due us for the use during the period involved, although in all our communications with National, with Celotex, and with Certain-Teed, we made it perfectly clear that we were offering the licenses, that we were entering into the licenses, that we were accepting the royalties under the licenses, with it clearly understood that it was without prejudice to the claim which we were making for the use of these patents prior to May 15, 1951.

So that was fully understood.

We finally reached a point, Your Honors, where we had to take some action or else forfeit this claim which we felt we were entitled to, or our client was entitled to. The statute was running. It was obvious we were going to have to bring suit. And as a matter of fact, the suggestion in one or two instances was rather made to us that suit should be brought.

There was a feeling that while there was a moral obligation to pay us for the use of these patents, stockholders might claim that there was no legal obligation to pay, and try to surcharge the officers if payment was made short of court order.

So we filed the suit against National in the State of Iowa on January 28th of this year; and later we filed suit [fol. 1029] against Certain-Teed in that same court. The State of Iowa was chosen first because we felt if this ever got down to an infringement claim, we should be in a district where the plant was located and where the board was actually made during this period. And National, Certain-Teed, and U.S.G. all had plants in or about Fort Dodge, Iowa, so that we had this factual situation which we felt was good from any infringement standpoint.

Likewise, we were informed that Judge Graven in Iowa was an extremely competent, conscientious judge, and we felt that this was a case that he would handle with dispatch and competence.

I think that Your Honor has asked a question about the five claims. To me the main thrust of our case out there is that these license agreements during the course of this period were rescinded by act of the parties, but there was a continued use of the patents under circumstances in which the law would certainly infer a promise to pay; in other words, a quantum meruit recovery for the reasonable value of the use of these patents during this period.

How, in framing our complaint, we were confronted with this proposition. A court might very well confront us at the close of the case with a careful and proper distinction and analysis of the cases. We might still have lodged a claim under this contract, and, of course, if we had a claim under the contract, we would not have recovery, either [fol. 1030] under infringement or under the quantum meruit counts.

Therefore, we felt, as an ounce of precaution, we had to include a count on the contract itself, and so such a count was prepared and included, and in the logic of things it became the first count on the contract.

The second count is really also on the contract, but with some slight modification which we felt was made.

Counts 3 and 4 are really the quantum meruit counts.

Count 3, as Your Honor recalls, proceeds upon, first, the rescission of the contract—the contract is out of the way—and then the continued use for which promise to pay is made and inferred by law.

Count 4 is the old common law quantum meruit count; and Count 5 is the infringement count.

I have spoken of infringement of our patents. I might just say that as far as the Iowa suits are concerned, there is, as Your Honors will recall, only the charge of using this one patent, the basic foam patent. That was done in the hope and expectation that we would presumably——

Chief Judge Stephens: That is the Roos patent?

Mr. Spray: The Roos patent; that is right. The fundamental Roos patent. That was done in the hope and expectation that we might simplify the issues there, because both of these companies, National and Certain-Teed, following the entry of the May 15, 1951, decree, had applied for a license under that basic Roos foam patent. They had [fol. 1031] not included a couple of the other foam patents which were supplementary to it. And they paid us royalties under a license which only required the payment of royalties if they were actually using the patent.

Therefore, we thought that by limiting it to that one patent, there could be no question as to its use during this period and no question as to the amount of damages which we had sustained because the new license took the same one percent royalty which was included in the old licenses.

We are surprised, of course, to find now that in the answer filed there, there has been a denial of the use of this patent and a challenge as to its validity which means maybe that we did not simplify matters after all, although I think ultimately it will work out that we did.

Now we have the suits against Ebsary and Newark, which from the statements made here, differ substantially from

the suits out in Iowa, in that neither of those companies had ever applied for a license under the May 15, 1951, license.

Therefore, there was no occasion or reason such as we had in the other cases for limiting it to this basic Roos patent.

Furthermore, we felt that they were using not only that patent, but the other foam patents which were listed in those complaints, and they covered a different period of time, in that they carry right on down through to the expiration of the basic Roos patent last October and to date with respect to the other patents involved.

[fol. 1032] So in those cases, we included similar counts, and with like reasoning as I gave in the counts for the Iowa suits. But we also included other patents which we felt were being used in this process that Mr. DeWitt has mentioned Newark is using.

Now, the next thing we knew was, first the National petition filed here on March 25th and the following petitions by Certain-Teed, Newark and Ebsary.

It is our position that the decree of May 15, 1951, does not deal with the matter of compensation for the use of U.S.G.'s patents prior to that date. The matter was not before this court. It was not involved in any issue formed by the pleadings or in the findings, orders or opinions of courts. As a matter of fact, it could not have been before this court without the filing of a supplemental bill, because, as I have said, you had no evidence after 1941, and we are dealing with the matter of the right to use United States Gypsum Company's patents during a period of from 1948 to 1951, so that there would have had to be supplemental proceedings before this court before that question could have been determined by the May 15, 1951, decree.

There was no suggestion of any sort for an injunction against U.S.G.'s obtaining compensation for the use of its patents during this period. Now, it is our position that when and where that is desired and we have decrees here by the score or the dozens, both in adjudicated cases and [fol. 1033] consent decree cases, where there is a specific provision not only holding the contracts illegal and invalid, but a specific provision that there shall not be any recovery for use of the patents prior to the date of the decree, that

comes in various forms, and it is in, as I say, scores of antitrust cases.

No such provision was in this decree or suggested or even talked about. On the contrary, every indication was in the proceedings before this court when we were considering that final decree, that U.S.G.'s patents were not to be confiscated in whole or in part.

As Your Honors will recall, every proposal for compulsory licensing carried with it that we should receive a reasonable compensation for the use of our patents. And this court was assured that the Government was not trying to confiscate patent rights; it was merely applying a rule which the Supreme Court had approved, that under circumstances such as this for a limited time, it was to include a provision for compulsory licensing with reasonable royalty, however.

[fol. 1034] The Government's first decree filed back in 1948, along with its findings, provided for compulsory licensing, but with reasonable royalty.

To give you our views of the procedure on these petitions, we have given a good deal of thought to it. We do not feel that they are properly filed under Article 10. I do not mean to get into the merits here at all of these points, but Article 10 is a limited reservation. When you lay it alongside of the hundreds of other decrees, you find that it is extremely limited, and we do not believe that these petitions are an effort to construe or carry out and enforce the decree, but rather are trying to enlarge its injunctive provisions at this late date.

We believe that the petitions are trying to get an adjudication on the matter that was not before the court in the last proceeding. We believe that they are trying to take the jurisdiction away from another Federal court of competent jurisdiction.

We had thought of moving to strike and have given a good deal of thought to that and filing the motion before this hearing, but we hesitated because of some of the charges that are in these petitions.

And I can answer Mr. Rosenman now that we are denying and will deny the allegations of paragraph 21. In fact, it was some of the allegations in that paragraph that caused

[fol. 1035] us to hesitate in filing a motion that would leave us here without a denial to some of these charges on the record.

It seemed to us there has been the suggestion made by counsel for the petitioners as to procedure and particularly Judge Rosenman. I should like to make this suggestion as to what seems right to us, and that would be that the petitioners in accordance with the rules of the court here, I believe, should first file their statement of points and authorities in support of what they are asking this court to do, and that could be filed whenever they are ready.

I have no time features that I am thinking of here. Then it would seem to me that United States Gypsum Company should file its statement of points and authorities in opposition, which I think is required by the rules of this court, and at the same time file our answer. Then we will have the issue joined on this thing. Upon the joining of issue it may well be that the court would want the filing of briefs, which I think would be in order.

It might well be that the matter would then be ready for setting down for hearing—either the matter on the merits and on its entirety or it might be at that point that with these points and authorities before the court there would be some preliminary issues which the court might feel should be determined in the first instance, and I am speaking of this questions as, are these petitions under Article 10, [fol. 1036] does this court have any jurisdiction to pick up this matter which involved, I think another suit, a controversy between the United States Gypsum Company and these various other gypsum manufacturers as to compensation for the use of these gypsum patents back in 1948, and the 1951 period. It might be that some of these things are those the court would want to determine first, but at least we would have the issues joined, at least we would have the position of all parties stated before the court, and the court at that point could determine what, in its judgment, would be the next procedural step.

That would be the suggestion which I would like to offer to the court.

I am also prepared to try to answer any other questions which the court may want to ask me at this time.

Judge Cole: What position, if any, have you taken in the Iowa litigation as to the restraining order in that proceeding pending the outcome of this petition here?

Mr. Spray: We have had no occasion, sir, at this point to take any position there. Answers have been filed. I can assure you that the same issues are raised there as are raised here. Our position there would be exactly the same as it is here, and that is that the decree of May 15, 1951, does not in any way touch or prevent us from bringing the suit which we have brought out there. I think there is nothing more fundamental in equity decretal procedure than that courts of equity do not enjoin by inference or enjoin [fol. 1037] by implication. It is a fundamental thing that if you are to be enjoined it should be clearly and specifically stated, and it is assumed that the court enjoins what it means to enjoin and is specific in stating its position.

Our position there will be there as it is here, that our action is not in any way barred, or we would not have brought it. I mean, barred by this decree or we certainly would not have brought it.

Chief Judge Stephens: No temporary restraining order seems to be requested at this present time. Counsel for the petitioners, apparently being of the view that those judgments will not be entered in the several other jurisdictions in the immediate future, or if such judgments were threatened, it being the opinion of view that the trial court there would suspend proceedings until this court has had an opportunity to act.

What have you to say on that in substance? Of course, regardless of our ultimate decision on the question of jurisdiction which may be raised, we have jurisdiction to preserve our own jurisdiction, and there ought not to be an entry of judgment in the other courts while this case is pending here; otherwise, should we ultimately find that we have jurisdiction and that the petitioner is entitled to an injunction our relief might be futile, nugatory.

What have you to say in that respect, Mr. Spray? Is [fol. 1038] there any likelihood of these proceedings in the other jurisdictions going forward to the point of judgment while we are considering this matter this morning or in the early fall, if that should be prolonged so long?

Mr. Spray: I think not. It has been called to my attention that possibly I misunderstood Mr. Justice Cole's question. It may have been directed to what our position would be on these motions that are being filed out there.

Was that your question?

Judge Cole: My question was exactly as Chief Judge Stephens asked. I understood that several counsel asked that the proceedings be suspended pending the outcome of this petition and hearing here.

Mr. Spray: My answer to both questions—I am glad it has been brought up again—is that we, of course, have brought a suit earnestly and sincerely and called upon the court to assume jurisdiction in the matter in these other jurisdictions. And we did that in the belief that that was the proper jurisdiction, and that this is not.

In those motions before those courts we certainly would state the same position, as I say, we stated here, that we do not believe that this court should act in this matter and that we do believe that the court had jurisdiction.

However, I think I can state with complete confidence that there is not any question of these things going to [fol. 1039] judgment before there could be a decision of this court in the fall. There just is not any possibility or likelihood at all of that.

The suits in New Jersey and in New York have not even been joined. There has been no answer filed.

The suits out in Iowa have formed an issue, but it is perfectly clear that they could not be and would not be tried. And I can be very confident of that, Your Honor, that there will be no judgment before you could act on it here.

Mr. Miller: May I make a statement in answer to that?

I appeared before the District Court in the Northern District of Iowa before Judge Graven sometime in April, asking for an extension of the time within which to answer the pleading, at which time Judge Graven stated that he intended, if at all possible, to try this case in July, the cases pending in his court, consolidating the Certain-Teed and the National case into one, so it would not interfere with his calendar in the fall. He had a heavy calendar.

Apparently it is clear from Mr. Spray's answer to Judge Cole that they intend to oppose the motion to stay in that court.

Chief Judge Stephens: Was the United States district judge there aware of the pendency of this suit?

Mr. Miller: I do not believe he was at that time. I am not certain as to that. At least our pleadings had not yet been filed, so he had no opportunity to know of the filing of these proceedings.

[fol. 1040] Mr. Spray: You know, Mr. Miller, that the order that was entered in connection with the extension that he would expect to try the case in the fall was changed, and he is now planning not to try the case before November.

Mr. Miller: I do not know that.

Mr. Spray: That is the fact. I thought it was in an order in the court.

Mr. Miller: No, no, there was no statement on that.

Mr. Spray: The reason I did not mention the July trial, I know that statement was made, but now that idea of a July trial is completely out, and the first possible trial there would be in November. That was the basis of my statement.

Mr. Miller: Of that we have not been advised.

Mr. Rosenman. May I supplement what Mr. Miller has stated, perhaps, by passing up to Your Honors a certified copy of the memorandum signed by Judge Graven setting this down for July. We have no information of what Mr. Spray says about this being put on for November.

We have certainly no assurance that the District judge in Iowa would deny our motion for a stay. We have no assurance as to what he would do about the trial of this.

Mr. Spray: Judge Rosenman, I am sorry. I do not have my court file here, but there is an order subsequent. I know of that order. There is a subsequent order which your local in Dubuque, I am sure, will know all about which does [fol. 1041] modify and change and repudiate that July date.

Mr. DeWitt: If the Court please, it seems to me there is going to be an unnecessary duplication of work in these various lawsuits unless there is a stay granted in the various jurisdictions.

In my own situation I have until June 30 in which to file an answer. If there is no stay granted in Newark I shall, of course, prepare and file an answer.

It is not therefore a question as to whether a judgment will be entered in these various suits before this court makes its decision. Various matters will have to be taken care of in these various jurisdictions.

Chief Judge Stephens: The judgment is what concerns this court, because the entry of a judgment in those cases might make this case moot.

Mr. DeWitt: I appreciate that.

Chief Judge Stephens: I can appreciate counsel's point of view, also, however, that might wish to avoid duplication of work.

Mr. DeWitt: Yes, we will all be doing work in these various jurisdictions which will be a duplication if this court decides in favor of the claims in the petitions. I was gratified that Mr. Spray indicated that they are not going to move to strike the petitions, but are going to try to dispose of the case on its merits here.

In view of that statement, it seems to me that Mr. Spray [fol. 1042] might well not oppose an application for stays in these various jurisdictions. Then we would have the determination here and upon that determination would depend whether or not anything would have to be done in the other jurisdictions.

It would seem to me that would be the orderly way to do it, and in that way eliminate this needless duplication of effort everywhere.

Chief Judge Stephens: Well, there certainly ought not to be any unseemly race or competition for jurisdiction in these cases as between these several United States District Courts concerned. And we feel sure there will not be, certainly, so far as counsel on either side of this case are concerned. And we would assume that the other courts would suspend the proceedings there in some manner until we had an opportunity to hear you here, since we have jurisdiction over our own decree, at least, to some extent under our reservation of the jurisdiction.

Judge Garrett suggests, Mr. Knuff, that it would be desirable, and I think Judge Cole would share his view,

that when you do come to the point of stating your position you state it on the jurisdictional question as well as the others.

Mr. Knuff: We will be happy to.

Chief Judge Stephens: Of course, we would take steps here to protect our own jurisdiction, that is, to preserve our jurisdiction for the purpose of hearing this proceeding if it became necessary, but since no application for a stay [fol. 1043] order has been made now, that is, for a temporary restraining order, in view of the statements made by counsel on both sides, we will assume that there will be no necessity for stay orders, that is, for temporary restraining orders at the present time or later. Of course, counsel may apply for such an order should exigencies arise demanding it.

What about this matter suggested by Mr. Spray, Judge Rosenman and counsel for the other petitioners, with reference to the filing of points and authorities by the petitioners, first, within such time as they see fit to file them, and then the filing of an answer and points and authorities in support of it by the Gypsum Company later, and then the setting of an argument of the issues which arise in that manner?

Mr. Rosenman: I should think, sir, that the more orderly procedure would be for the United States Gypsum Company to file its motion if it is so advised with respect to this court's jurisdiction, together with any allegations contraverting the factual allegations in our petition, and that after that is done we should be called upon to file briefs or perhaps exchange briefs.

I think that the issues ought to be determined, that is, the legal issues and the factual issues ought to be determined by a motion addressed to the jurisdiction of this court and an answer contraverting facts or setting up any additional facts, so that we may address our brief to the issues raised of law and fact.

[fol. 1044] And what I think Mr. Spray is suggesting is the obverse of that thing, to have us file a brief without knowing exactly what their position is going to be. And we did not know until today what their position is going to be at all. Apparently they are going to contend that we

are not properly in court under Article X. And also they are going to raise the factual question.

We think that those issues ought to be presented, sir, before either side is called upon to file briefs.

Chief Judge Stephens: Is there anything further on that subject from counsel for the petitioners?

Mr. Miller: We think, if Your Honor please, that there can be no question that the issues ought to be made before we are called upon to file the briefs, and that Mr. Spray ought to take the position to either move to strike the petitions on the ground that this court has no jurisdiction or to file an answer. After he has filed an answer and we know what we have to meet, we should be happy to meet such time for the filing of briefs that this court may fix.

Mr Spray: May I just comment on that? It seems to me that any time anyone applies to the court for an order, such as is applied for here, he must be prepared under the rules to state his points and authorities in support of what he is asking the court to do.

That is what Rule 9(b), I believe it is, contemplates. Then the defendant or the party against whom relief is sought files his opposition memorandum of points and au- [fol. 1045] thorities.

I just feel that that is following the logical course and procedure set out by the rules of the District Court here.

Chief Judge Stephens: The court will take a recess at this time in order to consult with respect to some of the matters that occur to us. And we may then have some further questions.

(Thereupon, at 11:15 o'clock a.m., the court recessed, to resume at 1:45 o'clock p.m., the same day.)

[fol. 1046] Afternoon Session

1:45 p.m.

Chief Judge Stephens: We have one further question to ask and then we have a statement to make as to our views in respect of the matters we have been discussing.

The question is this, and I will ask it of petitioners' counsel: Is there any contention that any violations of the antitrust laws are going on now, or is the violation which is complained of or asserted here limited to the conduct

of the defendant Gypsum Company and the other parties named during the three-year period, 1948 to 1951, to wit, the negotiations or contracts or conduct which is the subject of these suits in foreign jurisdictions?

I ask that question because it had to do with the time when this case ought to be heard.

If it is charged that violations of the antitrust laws are going on now, why that would be some reason for expediting the case, the case being one pending on the expediting act, but otherwise it would not be necessary to the court to rush the case on for hearing this summer.

What is the contention of the petitioners on that subject?

Mr. Rosenman: Sir, we think an answer to your question is that we know of no antitrust violations going on now with this exception: We have urged that the maintenance of these suits in Iowa and New York and New Jersey are themselves violations of this decree, that they are a con- [fol. 1047] tinuance of the misuse of the patents. The very bringing of the suit is a misuse of the patent.

Chief Judge Stephens: We understand that to be your contention, or one of your contentions, but we have been given at least informal assurance this morning that those suits will not be actively prosecuted until this court gets a chance to express itself.

Mr. Rosenman: Then to answer your question, we know of no violations outside of that.

Chief Judge Stephens: May we hear from counsel for the other petitioners?

Mr. DeWitt: We do not make any contention that there are current violations of the antitrust laws.

Mr. Miller: Our position is the same on that.

Chief Judge Stephens: With respect to the Government's request to have until the 30th of June to file a statement of its position we think that is not unreasonable. That time will be granted, Mr. Knuff.

Mr. Knuff: Thank you.

Chief Judge Stephens: With reference to the matter of points and authorities, this case is not quite accurately describable as a mere motion which is covered by Rule 9(b), which contemplates that when motions are filed in a pending case they shall be supported by points and authorities.

The rules do not contemplate that points and authorities shall be filed in support of an original action, that is, the [fol. 1048] original petition or declaration or complaint. However, the point is not so much one of nomenclature as it is of getting assistance of counsel for the benefit of the Court.

And this is a proceeding filed within the proceeding, not technically called a motion, but it is a proceeding filed within the proceeding. These petitions are filed in Civil Case No. 8017 which is the case of the United States v. the United States Gypsum Company, et al., in which we entered the decree, and it seeks to enforce or interpret or apply that decree. That is, these petitions do. And we think it is not inappropriate, therefore, for us to ask counsel for the petitioners to file points and authorities under Rule 9(b), because we think it will be helpful to us, if we had them.

The rule says:

> "With each motion there shall be filed and served a separate paper stating the specific points of law and authorities to support the motion. Such statement shall be additional to a statement of grounds in the motion itself, and shall be entered on the docket but shall not be a part of the record. The moving party shall enter the motion and the fact of filing the statement on a card provided by the clerk. A statement of opposing points and authorities shall be similarly filed, noted and served within five days or such further time as the court may grant or the parties agree upon. If [fol. 1049] not filed within the prescribed time the court may treat the motion as conceded. If so filed the motion shall be treated as submitted unless the judge directs or either party requests an oral hearing, for which ten minutes will be allowed each side."

That rule, however, is subject to modification. It is within the discretion of the court with reference to the time involved. And we are disposed to make this suggestion, but we will hear you before we make a decision. We should like to have points and authorities from the petitioners outlining the theory of their proposed action and the relief

which they seek from us. We would like to have them filed within such reasonably early time as it is convenient to the petitioners' counsel. We understand, Judge Rosenman, the reason why you would like to have the answer in first, in order that all participants may be advised of all issues that are going to be raised, but we think it would be helpful to the Judges if we had your points and authorities and those of the other petitioners in the reasonably near future some time when you can fairly conveniently submit them to us.

And that we think that the defendant, the Gypsum Company, ought to file its answer and its brief in support of its position within such time as we will accord it after hearing what its needs are.

And then if it turns out, Judge Rosenman, and counsel for the other petitioners, that issues are raised in the answer [fol. 1050] which you do not anticipate when you file your points and authorities, you will be given an opportunity to file a further brief in respect of that.

And we would like to have not merely an exchange of briefs, but a brief and an answer brief and a reply brief necessary on both sides, because we find and have found in some instances, in the trial of the Gypsum Company case, that when the briefs were just exchanged at the same time, frequently there were points left unmet, occasionally by one side and sometimes by both. As a result of which we have had to either ask for more help or give it to ourselves by our own research. And we would like to have the benefit of counsel's help.

So we will give the Government to the 30th of this month, Mr. Knuff.

How much time, Judge Rosenman and Mr. DeWitt and the other gentlemen, and Mr. Rippey, who represent the petitioners, how much time will you need to present your points and authorities?

Mr. Rosenman. It would be very helpful to us if we could take our time after the Government files its, whatever it is going to file, a petition or a supplementary complaint or whatever it does—it would be very helpful to us if we could run our time from that.

Chief Judge Stephens: Do you share that view, Mr. DeWitt?

Mr. DeWitt: Thirty days after it. I was going to suggest that we have thirty days after the Government inter- [fol. 1051] poses whatever pleading it decides to interpose.

Mr. Rosenman: Thirty days would be adequate.

Chief Judge Stephens: That will be approximately the first of August.

Mr. Rosenman: Yes, sir, the first of August.

Chief Judge Stephens: Mr. Miller, will that be suitable?

Mr. Miller: That will be suitable.

Mr. Rippey: That will be suitable.

Chief Judge Stephens: How much time will you need for the Gypsum Company?

Mr. Spray: I might suggest thirty days after the other briefs are filed for our answer and our points and authorities, if that is agreeable.

Chief Judge Stephens: You mean by that if their briefs should be filed short of their thirty days, you only want to take thirty days after they are filed?

Mr. Spray: I believe it is a little better to put it on the calendar.

Chief Judge Stephens: And to make definite dates. We have a calendar here. We will see if we can not make definite dates. Can you furnish us a calendar for the next two or three months with respect to this?

With respect to the time of the hearing on such issues of fact or law as are developed, we will also hear counsel on this subject. And, of course, if an emergency should arise [fol. 1052] in the view of counsel for either side of the case, we would be glad to consider an application for a change of schedule, but it seems to us that if the only violations of the antitrust laws which are charged are those which are alleged to have occurred between the 1948 and 1951 period, and including the suits which are now being filed elsewhere, if that is the only antitrust violation which is charged, a part of it has already been committed, to wit, between 1948 and 1951, if it was committed, and in the suits which are not likely to ripen into judgment without an opportunity for this court to express itself, therefore, there is not any great pressure for bringing the case on this summer. I am in this situation myself, gentlemen.

I have enough opinions to write to keep me busy until the end of July. We keep a division of three judges on duty at all times here during the summer. I have become somewhat of a hard task master for my colleagues since I became Chief Judge.

I stated that we ought to be like a fire department, not that we would have to run all of the time, but that we should be ready to run as soon as the fire breaks out. So we keep three judges here. And I have to serve myself during August, on the petitions and motions and emergencies that come on during each month, including August.

I shall have to be away from the 20th until the 1st of August. I am hoping to get thirty days off between the 20th of August and the 20th of September, unless for cer- [fol. 1053] tain quasi-official duties which I shall have to attend to during that period. And the last ten days in September I am obliged to occupy myself with a judicial conference for the preparation of the resumption of this court the 1st of October.

Unless counsel on either side see some serious reason why the case should be pressed on sooner, we are disposed to announce that the case will be heard sometime in October or the earlier part of October, if possible, but we have to consult the convenience of my colleagues in that, who are regularly members of the Court of Customs and Patents Bench.

Does anyone see any objection to that kind of a schedule?

Judge Garrett: We could be ready by the second week.

Chief Judge Stephens: Probably by the second or the third week in October, yes—possibly during the second week.

Mr. Rosenman: I am not rising to make an objection, Your Honor, but there is in my mind the burden that we will have to file a brief in Iowa during July, at the same time that we do here, unless Mr. Spray decides to consent to a motion for a stay in Iowa which has been filed.

Chief Judge Stephens: I do not quite understand. Will you step to the lectern? We can hear a little easier from that central point.

Mr. Rosenman: Under this schedule, unless Mr. Spray consents to our application for a stay in Iowa, we will have

to file a brief here and a brief in Iowa at the same time. [fol. 1054] I am not urging it as an objection. We will have to do that.

I understand also from Your Honor that there are three judges here, so that in the event of some determination in Iowa inconsistent with our position that we might apply here for a formal stay then.

Chief Judge Stephens: There are not three judges. There will not be three judges of this expediting court here during the summer. I was talking about the United States Court of Appeals. We keep three judges of that court here during the summer time, but that court has no jurisdiction in this case. It is only this expediting court that has jurisdiction.

However, I think it is unlikely that Judge Garrett or Judge Cole and myself would all be away at the same time. Judge Cole lives in Baltimore, and I live here. And Judge Garrett may be away in Tennessee for a short time, but I think in any emergency that one of us could be reached and possibly we could assemble the court, if necessary, but I hope counsel will take steps, if they can consistently with the rights of their clients, not to make emergency action necessary.

It would seem to me that it would be quite improvident to go forward to any conclusive action in this litigation in these other suits while this case is pending here. And I would not think that the parties on either side would be disposed to do that. I would think that if the parties to the foreign suits would make the situation known to the [fol. 1055] judges in those suits they would not be disposed to press the case on.

However, if any emergency arises in which either side needs relief from this court we will make ourselves accessible some way or another.

Mr. Miller: I have a question to ask, Your Honor. I may not have heard Your Honor correctly. But did you make any provision for the filing of reply briefs?

Chief Judge Stephens: Not yet. We will, therefore, set the Government's time for the filing of such motion or petition, brief or other statement that it sees fit to file the 30th day of June. And the 31st of July for the petitioners to file their statements and points and authorities. And

the 31st of August for the United States Gypsum Company to file its answer and brief.

And while we have spoken of these papers for the petitioners in terms of points and authorities, we would appreciate their really being in the form of a brief printed, so that they will be convenient for our use. And with respect to any reply that might need be filed by either party, I should like to leave that to application. Possibly no reply will be necessary, but if after the Gypsum Company has filed its answer and brief the petitioners feel the need of filing a reply to fully inform the court as to their position, perhaps we could fix the date and leave it optional whether you file a reply and save counsel the necessity of applying.

[fol. 1056] How much time would you like to have to file a reply, another thirty days, or would fifteen days be all right? Fifteen days is pretty short for printing, is it not?

Mr. Rosenman: Yes, sir. If you could give us a month, and if we do not need it——

Chief Judge Stephens: Very well. That will be, to file replies, until the 30th of September. That is, if they are needed.

Mr. Spray: I just have in mind, of course, after the reply brief we will want an opportunity to consider that before this matter comes on for hearing. I had thought that maybe we were working on a tighter schedule, that the reply brief might be twenty days or perhaps we are trying to crowd our answer and the first brief with the printing and all pretty much in suggesting thirty days there. Maybe we should have until after Labor Day, the 8th of September, and then the balance of the month for the reply brief.

Chief Judge Stephens: To file what, your answer?

Mr. Spray: Our answer and brief.

Chief Judge Stephens: The answer and brief until when?

Mr. Spray: Well, I was figuring until after Labor Day, which would be the 8th of September.

Chief Judge Stephens: Until the 8th of September?

Mr. Spray: Yes, the 8th of September.

Chief Judge Stephens: Very well. If there is no objection. The Gypsum Company may have until the 8th of [fol. 1057] September. And you would like to have thirty days after that for the reply?

Mr. Rosenman: Yes, sir, in case we have to use it.

Chief Judge Stephens: That is right.

Now since you will have the points and authorities, Mr. Spray, in advance of filing your answer and your brief, and then when their brief comes in—well, I see your point is this, that their points and authorities may not present their full case because they may not anticipate all that will appear in your answer.

Mr. Spray: That is right.

Chief Judge Stephens: Therefore, for the first time you will see their contentions in some aspects possibly when their brief comes in after yours. You may need further time.

Mr. Spray: That is the point.

Chief Judge Stephens: That looks like it will run on over until November, instead of October, otherwise the court will have all of these papers too close to the commencement of the hearing, unless we shorten all of this to some extent. It is better to get first-class briefs in on all of the points of law and fact which are going to be at issue before we proceed to our hearing than afterwards, in our experience, because we make it a practice to read the briefs carefully before we have the hearing.

Maybe we had better not push it for October, maybe we had better get it in in November. How will that suit your calendar?

Judge Garrett: Very well.

Chief Judge Stephens: Very well. Let us do it that way [fol. 1058] then. That will give you until the 8th of September, Mr. Spray, to file your answer and brief.

Mr. Spray: September 8?

Chief Judge Stephens: Yes. And that will give you then until October 8, gentlemen, for the petitioners to file your reply.

Do you think until the first of November would be sufficient, Mr. Spray?

Mr. Spray: I would think so, yes, sir.

Chief Judge Stephens: We seem to be doling out this time on a 30-day basis. If you want thirty days we can give you another thirty days, if necessary. And we can

set the case sometime in the middle of November or thereabouts.

Mr. Spray: Perhaps we should do that.

[fol. 1059] Chief Judge Stephens: Very well, thirty days, then. That will take it to the 8th of November.

Mr. Knuff, have you anything more to say?

Mr. Knuff: I am just a little bit confused as to what is expected of the Government.

Chief Judge Stephens: You are to file your statement of points and authorities or answer or brief or whatever paper you wish to file. I understood you to say you wished to file a definition of your position in the matter.

Mr. Knuff: We will file a formal pleading.

Chief Judge Stephens: A formal pleading by the 30th of June.

Mr. Knuff: That is right. Does the court expect a brief from us at that time?

Chief Judge Stephens: Well, I suppose that all depends, Mr. Knuff, upon what position you are going to take. I should think you had better file a brief, if you think you need to.

Mr. Knuff: As I say, in order to get this case in the proper posture, possibly we ought to be able to see some of the points and authorities that the other people are going to file so that we could make an objective determination as to our position in the matter. I will do anything the court wants. I just want to be clear as to what.

Chief Judge Stephens: Of course, counsel is entitled to change his position upon receiving new light upon the subject. I think you applied for leave to file your statement of [fol. 1060] position on the 30th.

Mr. Knuff: That is right.

Chief Judge Stephens: If you do that, it would start this other time running sooner.

Mr. Knuff: We will file our position on the 30th.

Chief Judge Stephens: Let me put it this way, Mr. Knuff: If you need further time to file additional brief or statement, you may apply for it and we will grant you what is necessary.

Mr. Knuff: Thank you.

Chief Judge Stephens: One other thing, we had the courtesy during the trial of this case of daily copy of all

that the court reporter took down in the way of the remarks of counsel or the court. Will we have the benefit of that again, gentlemen? With a copy for each judge, please.

Judge Cole suggests that it would be desirable, Mr. Spray, if you can do so, for you to make a definite commitment with reference to not proceeding in these other cases. Would that be possible for you to do either now or later?

Mr. Spray: I have hesitated to do that for the reason I said this morning, but I have certainly heard everything the court has said today. And I intend to guide myself accordingly, but having called upon these other courts and filed the suits, I just had some hesitancy of coming down here and making a commitment about it. But I certainly do not intend to take an action that I think would be disapproved by this court.

[fol. 1061] Chief Judge Stephens: We understand that, but we understand also your reluctance to commit yourself to a program that might possibly develop to be inconsistent with the wishes of the judges in the other jurisdictions, but I think you, in effect, have committed yourself. I do not mean to bind you to this, but I think you have, in effect, committed yourself not to proceed in the other cases until this court has had an opportunity to express itself unless you are required to do so by the action of the judges elsewhere.

Mr. Spray: That is the point.

Chief Judge Stephens: Is that correct?

Mr. Spray: I think that is quite correct, yes, sir.

Chief Judge Stephens: Of course, if action is contemplated elsewhere as the result of the insistence of the judges elsewhere, the gentlemen who represent the petitioners are entitled to apply here for a temporary restraining order, but I think there will be no practical difficulty about that. I should not think that the other judges would insist upon going forward with the case if counsel do not desire to.

Mr. Knuff: My colleagues suggested, Judge Stephens, that, if satisfactory to the court, we will formalize our position by June 30th, and if satisfactory to the court we will file a brief within thirty days after September 8th, after the answer is in, if we feel that a brief is needed.

Chief Judge Stephens: Is there any objection to that?

[fol. 1062] That may be granted.

The court reporters have got this all clear?

Have you, Mr. Watts?

Mr. Watts: Yes.

Chief Judge Stephens: Mr. Rosenman?

Mr. Rosenman: I want to suggest that the court has not set a date for argument. Does the court wish to do that now?

Chief Judge Stephens: It will probably be a little difficult to do that until we consult the clerk of my court and of the Court of Customs and Patents Appeal, but we will try and give counsel—well, we can say now that the case will come on sometime during November. Just what time we will have to leave until a later setting, because of our manifold duties and also the convenience of counsel. You all have local counsel here, have you not, in Washington? Through local counsel we will give counsel notice well in advance, so that you can arrange your other engagements.

Will you see, Mr. Watts, that I do not forget to keep that promise?

Mr. Watts: Yes.

Chief Judge Stephens: Is there anything further from anyone?

If not, you may announce a recess.

(Whereupon, the pre-hearing conference adjourned at 2:25 p.m.)

[fol. 1063] Reporter's Certificate to foregoing transcript omitted in printing.

[fol. 1064] Reporter's Certificate to foregoing transcript omitted in printing.

[fol. 1065] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF IOWA, CENTRAL DIVISION

Civil Action No. 564

UNITED STATES GYPSUM COMPANY, an Illinois Corporation, Plaintiff,

against

NATIONAL GYPSUM COMPANY, a Delaware Corporation, Defendant

AMENDED ANSWER OF DEFENDANT NATIONAL GYPSUM COMPANY TO COMPLAINT *—(Copy Filed in United States District Court for the District of Columbia—June 25, 1953)

AS TO COUNT I OF THE COMPLAINT:

1. Defendant is without knowledge or information sufficient to form a belief as to the truth of the allegations in paragraph 1 of Count I of the complaint.

2. Defendant admits the allegations in paragraph 2 of Count I of the complaint.

3. Defendant denies the allegations in paragraph 3 of Count I of the complaint, except that defendant admits it is a corporation incorporated under the laws of the State of Delaware; that plaintiff is making a claim which exceeds, exclusive of interest and costs, the sum of three thousand dollars ($3,000); and that this action is brought in a judicial district in which defendant is a resident within the meaning of Section 1391 of Title 28, U. S. Code. Defendant is with- [fol. 1066] out knowledge or information sufficient to form a belief as to the truth of the allegation that plaintiff is a corporation incorporated under the laws of the State of Illinois.

4. Defendant denies the allegations in paragraph 4 of Count I of the complaint, except that defendant admits that,

* As amended on March 24, 1953.

on October 17, 1929, plaintiff and defendant entered into a purported license agreement as set forth in *Exhibit A* to the complaint, and defendant refers to said license agreement for the exact terms thereof.

5. Defendant is without knowledge or information sufficient to form a belief as to the truth of the allegations in paragraph 5 of Count I of the complaint, except that defendant admits that, on October 8, 1935, Letters Patent of the U. S. No. 2,017,022, relating to cementitious material, was granted to U. S. Gypsum, as assignee, on an application theretofore filed by Carlisle K. Roos; and that said patent thereafter became Letters Patent under the purported agreement between U. S. Gypsum and National Gypsum of October 17, 1929.

6. Defendant denies the allegations in paragraph 6 of Count I of the complaint, and the defendant refers to the purported license agreement set forth in *Exhibit A* to the complaint for the exact terms thereof.

7. Defendant denies the allegations of paragraph 7 of Count I of the complaint, except that defendant admits that defendant paid no license fees or royalties allegedly due under the purported license agreement set forth in *Exhibit A* to the complaint, for the period from February 1, 1948 to May 15, 1951.

8. Defendant denies the allegations in paragraph 8 of Count I of the complaint.

9. Defendant denies the allegations in paragraph 9 of Count I of the complaint.

10. Defendant denies the allegations in paragraph 10 of Count I of the complaint, except that defendant admits that, [fol. 1067] on or about December 30, 1935, it acquired certain gypsum board plants of Universal, together with a purported license agreement entered into on November 5, 1929, between U. S. Gypsum, as licensor, and Universal and its receivers, as licensee, and that the provisions of said agreement were substantially identical in all material respects with the provisions of the purported license agreement between plaintiff and defendant, dated October 17, 1929, (attached to plaintiff's complaint as *Exhibit A*), for the period from July 8, 1941 to May 15, 1951.

11. Defendant admits that a true copy of said purported Universal license agreement of November 5, 1929, is attached to plaintiff's complaint as *Exhibit B*.

12. Defendant denies the allegations in paragraph 12 of Count 1 of the complaint, except that defendant admits that it paid to plaintiff, commencing July 8, 1941, one percent (1%) of its selling price of gypsum board manufactured and sold by it until February 1, 1948 and that such payments were allocated by defendant in part to the gypsum board manufactured in the plants acquired by defendant from Universal Gypsum and Lime Co.

13. Defendant denies the allegations in paragraph 13 of Count I of the complaint.

14. Defendant denies the allegations in paragraph 14 of Count I of the complaint.

As to Count II of the Complaint:

1. Defendant repeats the answers contained in its answer to the allegations in paragraphs 1, 2, 3, 4, 5 and 6 of Count I of the complaint, with like effect as if fully set forth in Count II of the complaint.

2. Defendant denies the allegations in paragraph 2 of Count II of the complaint, except that defendant admits that it paid no license fees or royalties allegedly due under the purported license agreement set forth in *Exhibit A* to [fol. 1068] the complaint, for the period from February 1, 1948 to May 15, 1951.

3. Defendant denies the allegations in paragraph 3 of Count II of the complaint.

4. Defendant repeats the answers contained in its answer to the allegations in paragraphs 10, 11 and 12 of Count I of the complaint, with like effect as if fully set forth in Count II of the complaint.

5. Defendant denies the allegations in paragraph 5 of Count II of the complaint, except that defendant admits that it paid no license fees or royalties allegedly due under the purported license agreement set forth in *Exhibit B* to the complaint, for the period from February 1, 1948, to May 15, 1951.

6. Defendant repeats the answers contained in its answer

to paragraphs 13 and 14 of Count I of the complaint, with like effect as if fully set forth in Count II of the complaint.

As to Count II of the Complaint:

1. Defendant repeats the answers contained in its answer to the allegations in paragraphs 1, 2 and 3 of Count I of the complaint, with like effect as if fully set forth in Count III of the complaint.

2. Defendant denies the allegations in paragraph 2 of Count III of the complaint, except that defendant admits that, on October 17, 1929, plaintiff and defendant entered into a purported license agreement as set forth in *Exhibit A* to the complaint, and defendant refers to said purported license agreement for the exact terms thereof.

3. Defendant is without knowledge or information sufficient to form a belief as to the truth of the allegations in paragraph 3 of Count III of the complaint, except that defendant admits that, on October 8, 1935, Letters Patent of the U. S. No. 2,017,022, relating to cementitious material, [fol. 1069] was granted to U. S. Gypsum, as assignee, on an application theretofore filed by Carlisle K. Roos; and that said patent thereafter became Letters Patent under the purported agreement between U. S. Gypsum and National Gypsum of October 17, 1929.

4. Defendant denies the allegations in paragraph 4 of Count III of the complaint, and defendant refers to the license agreement set forth in *Exhibit A* to the complaint for the exact terms thereof.

5. Defendant denies the allegations in paragraph 5 of Count III of the complaint, except that defendant admits that it paid no license fees or royalties allegedly due under the license agreement set forth in *Exhibit A* to the complaint, for the period from February 1, 1948 to May 15, 1951, and that, after February 1, 1948, defendant took no action to comply with or enforce any of the provisions of said agreement, and defendant further admits that plaintiff, after February 1, 1948, took no action to enforce any of the provisions of said agreement against defendant until January 28, 1953, when it instituted the present proceeding.

5a. Defendant repeats the answers contained in its answer to the allegations in paragraphs 10 and 12 of Count

I of the complaint, with like effect as if fully set forth in Count III of the complaint.

5b. Defendant denies the allegations in paragraph 5b of Count III of the complaint, except that defendant admits that it paid no license fees or royalties allegedly due under the purported license agreement set forth in *Exhibit B* to the complaint, for the period from February 1, 1948 to May 15, 1951, and that, after February 1, 1948, defendant took no action to comply with or enforce any of the provisions of said agreement, and defendant further admits that plaintiff, after February 1, 1948, took no action to enforce any of the provisions of said agreement until January 28, 1953, when it instituted the present proceeding.

[fol. 1070] 6. Defendant denies the allegations in paragraph 6 of Count III of plaintiff's complaint.

7. Defendant denies the allegations in paragraph 7 of Count III of plaintiff's complaint.

8. Defendant denies the allegations in paragraph 8 of Count III of plaintiff's complaint.

As to Count IV of the Complaint:

1. Defendant repeats the answers contained in its answer to the allegations in paragraphs 1, 2 and 3 of Count I of the complaint, with like effect as if fully set forth in Count IV of the complaint.

2. Defendant denies the allegations in paragraph 2 of Count IV of the complaint.

As to Count V of the Complaint:

1. Defendant repeats the answers contained in its answer to the allegations in paragraphs 1 and 2 of Count I of the complaint, with like effect as if fully set forth in Count V of the complaint.

2. Defendant denies the allegations in paragraph 2 of Count V of the complaint, except that defendant admits that this is a civil action based upon United States Letters Patent No. 2,017,022, and that this action is being brought in a judicial district where defendant has a regular and established place of business within the meaning of Section 1400 of Title 28, U. S. Code.

3. Defendant is without knowledge or information sufficient to form a belief as to the truth of the allegations in paragraph 3 of Count V of the complaint; except that defendant admits that, on October 8, 1935, Letters Patent of the U. S. No. 2,017,022, relating to cemetitious material, was granted to U. S. Gypsum, as assignee, on an application theretofore filed by Carlisle K. Roos.

[fol. 1071] 4. Defendant denies the allegations in paragraph 4 of Count V of the complaint.

5. Defendant denies the allegations in paragraph 5 of Count V of the Complaint.

6. Defendant denies the allegations in paragraph 6 of Count V of the complaint.

Defendant denies every allegation in Counts I to V inclusive of the complaint not specifically admitted or denied in this amended answer.

For a First Defense to Each of the Counts of the Complaint:

1. On August 15, 1940, the United States of America filed its complaint, "*United States of America* v. *United States Gypsum Co. et al.*, Civil Action No. 8017," in the United States District Court for the District of Columbia, against United States Gypsum Company, National Gypsum Company, five other manufacturers of gypsum products, and others, charging violations of the Sherman Act (15 U. S. C. 1, 2 and 3). The complaint alleged that USG and the six other manufacturers had entered into, and were engaged in, an unlawful combination which controlled the manufacture, distribution and selling prices of gypsum products, and had effectuated the control by means of substantially uniform patent license agreements between U. S. Gypsum and the manufacturing defendants, including the purported license agreement between U. S. Gypsum and National, dated October 17, 1929, and the purported license agreement between U. S. Gypsum and Universal, dated November 5, 1929, assigned to National on or about December 30, 1935. Said purported agreements are attached to plaintiff's complaint herein as *Exhibits A and B.*

[fol. 1072] 2. On March 8, 1948, the Supreme Court of the United States held that the license agreements between U. S. Gypsum and its manufacturing licensees, including the said license agreements between U. S. Gypsum and National, were unlawful because under such licenses "the industry is completely regimented, the production of competitive unpatented products suppressed, a class of distributors squeezed out, and prices on unpatented products stabilized" (*U. S.* v. *United States Gypsum Company et al.*, 333 U. S. 364, 400).

3. After remand of the antitrust suit to the District Court, the Government moved for summary judgment, which the District Court granted, and then entered judgment in conformity therewith on November 7, 1949. The Government and defendant U. S. Gypsum and its associated individual defendants thereafter appealed to the Supreme Court, and said judgment was stayed pending these appeals. U. S. Gypsum appealed on the ground that summary judgment had been entered in denial of its right to present direct evidence, and asserted that its offer of proof would establish that its activities had been entirely lawful. The Government appealed on the ground that the District Court decree was inadequate to cure the ill effects of the illegal conduct of defendants.

4. On May 29, 1950, the appeal of U. S. Gypsum and its associated individual defendants was dismissed by the Supreme Court (339 U. S. 959). On the Government's appeal, the Supreme Court held, on November 27, 1950, that the District Court's decree was inadequate to "cure the ill effects of the illegal conduct" (340 U. S. 76, 88), and ordered that the District Court modify its decree to broaden it in several respects.

5. The United States District Court for the District of Columbia modified its prior decree in accordance with the opinion of the Supreme Court on November 27, 1950, and entered a final decree on May 15, 1951. Said final decree, [fol. 1073] attached hereto as *Exhibit A*, provided *inter alia* as follows:

"Article II.

"5. 'Patent Licenses' shall mean the patent license agreements which were in effect between defendant

United States Gypsum Company and each of the other defendant companies at the time the complaint herein was filed and described in said complaint as follows:

"Agreement dated October 17, 1929, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee;"

* * * * *

"Agreement dated November 5, 1929, between United States Gypsum Company, as licensor, and Universal Gypsum and Lime Company (National Gypsum Company, as Assignee), as licensee;"

* * * * *

and any supplement or amendment to any of said patent license agreement."

"Article IV.

"Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void."

6. The final decree of the District Court of Columbia also directed U. S. Gypsum to license its gypsum patents, as therein defined, to all applicants at reasonable royalties, under certain terms and conditions provided in said final decree. Roos Patent No. 2,017,022 was included among those patents subject to compulsory licensing by said final decree.

7. Roos Patent No. 2,017,022 was licensed under each of the uniform, unlawful license agreements between U. S. Gypsum and its licensees, and was one of the principal patents used to effectuate the unlawful conspiracy. This misuse of said patent destroyed its enforceability until [fol. 1074] such time as the consequences of such misuse were fully dissipated.

8. The proceedings in *United States* v. *United States Gypsum Company et al.*, Civil Action No. 8017, the Supreme Court opinions therein, and the final decree of May 15, 1951 establish, as a matter of law, U. S. Gypsum's misuse of all patents licensed under its uniform, unlawful license

agreements, including Roos Patent No. 2,017,022, until at least May 15, 1951, and U. S. Gypsum is barred from enforcing its misused patents prior to said date by contract claim or by infringement claim, or by any claim under any other legal theory.

For a Second Defense to Each of the Counts of the Complaint:

1. Defendant repeats and realleges, as part of its second defense, each and every allegation in paragraphs 1 to 7 of its first defense, with the same effect as if fully set forth herein.

2. The first Supreme Court opinion in *United States* v. *United States Gypsum Company et al.*, 333 U. S. 364, establishes, as a matter of law, that U. S. Gypsum misused the patents licensed under its uniform, unlawful agreements, including Roos Patent No. 2,017,022, until at least March 8, 1948, the date of said opinion. U. S. Gypsum continued thereafter to misuse the patents licensed under said uniform, unlawful agreements, including Roos Patent No. 2,017,022, until at least May 15, 1951, and the consequences of such misuse were not fully dissipated until at least May 15, 1951, by reason of the following:

A. U. S. Gypsum failed and refused, until at least May 15, 1951, to take such affirmative action as would dissipate fully the unlawful consequences of its illegal acts and thereby to purge its misused patents, including Roos Patent No. 2,017,022.

[fol. 1075] B. U. S. Gypsum did not at any time, until at least May 15, 1951, abandon any of the illegal patent practices charged in the Government's complaint and proved at the trial.

C. U. S. Gypsum's patent licensing, sales, pricing and distribution policies were conducted at all times, until at least May 15, 1951, in accordance with the terms of the unlawful licenses.

D. U. S. Gypsum continued until at least May 15, 1951 to collect royalties from some of its licensees in accordance with the terms of their unlawful licenses.

E. U. S. Gypsum continued until at least May 15, 1951

to collect royalties on unpatented as well as patented gypsum products.

F. U. S. Gypsum continued until at least May 15, 1951 to sell and distribute its gypsum products under the same terms and conditions as those prescribed in its unlawful licenses.

G. U. S. Gypsum continued, until at least May 15, 1951, to refrain from selling gypsum products to jobbers.

H. U. S. Gypsum failed and refused, until at least May 15, 1951, to grant licenses under its misused patents to all applicants on lawful and unrestricted terms and conditions.

I. U. S. Gypsum has continued at all times to assert that its unlawful patent license agreements with its manufacturing licensees were legal in every respect.

3. By reason of the foregoing, U. S. Gypsum is barred from enforcing its misused patents, including Roos Patent No. 2,017,022, prior to May 15, 1951, by contract claim or by infringement claim, or by any claim under any other legal theory.

[fol. 1076] For a Third Defense to Each of the Counts of the Complaint:

1. Defendant repeats and realleges, as part of its third defense, each and every allegation in paragraphs 1 to 7 of its first defense, with the same effect as if fully set forth herein.

2. Since the filing of the instant complaint on January 28, 1953, U. S. Gypsum has instituted actions in this and other Federal district courts to enforce several of the above unlawful licenses made with its licensees, notwithstanding that each said license has been held to be unlawful by the Supreme Court on two occasions, and that each said license is "adjudged unlawful under the antitrust laws of the United States and illegal, null and void" by Article IV of the final decree of the District Court of Columbia in *United States* v. *United States Gypsum Company et al.* In each of these actions royalties are sought for use of Patent No. 2,017,022. The attempt, by these actions, to collect royalties for the use of Patent No. 2,017,022 by enforcing the above unlawful agreements is *per se* a misuse of said patent, and U. S. Gypsum is therefore barred from enforcement of said

patent by contract claim or by infringement claim, or by any claim under any other legal theory.

For a Fourth Defense to Each of the Counts of the Complaint:

1. Defendant repeats and realleges, as part of its fourth defense, each and every allegation in paragraphs 1 to 7 of its first defense, with the same effect as if fully set forth herein.

2. The question of U. S. Gypsum's right to enforce its misused patents, including Roos Patent No. 2,017,022, was a material issue before the United States District Court for the District of Columbia in *United States* v. *United States Gypsum Company, et al.* The final decree in that cause pre- [fol. 1077] cludes U. S. Gypsum from enforcing its misused patents, including Roos Patent No. 2,017,022, for any period prior to May 15, 1951, under the doctrines of collateral estoppel by judgment and *res adjudicata.*

For a Fifth Defense to Each of the Counts of the Complaint:

1. Defendant repeats and realleges, as part of its fifth defense, each and every allegation in paragraphs 1 to 7 of its first defense, with the same effect as if fully set forth herein.

2. U. S. Gypsum's suits in this and other Federal district courts constitute an attempt to obtain the royalties promised under its uniform, unlawful licenses, or the equivalent moneys in infringement damages. However, the final decree of the District Court of Columbia, in adjudicating said unlawful licenses as null and void, barred U. S. Gypsum from enforcing in any manner, directly or indirectly, or under any legal theory, any provision of said unlawful licenses. Thus, the instant complaint is a circumvention of the final decree of the District Court of Columbia, and should be dismissed.

For a Sixth Defense to Each of the Counts of the Complaint:

1. Defendant repeats and realleges, as part of its sixth defense, each and every allegation in paragraphs 1 to 7

of its first defense, with the same effect as if fully set forth herein.

2. Roos Patent No. 2,017,022 is invalid and void.

For a Seventh Defense to Each of the Counts of the Complaint:

1. Defendant alleges that each of the Counts I, II, III, IV and V of the complaint fails to state a claim upon which relief may be granted.

[fol. 1078] For an Eighth Defense to Count I of the Complaint:

1. Defendant repeats and realleges, as part of its eighth defense to Count I of the complaint, each and every allegation in paragraphs 1 to 7 of its first defense, with the same effect as if fully set forth herein.

2. The agreements between U. S. Gypsum and National, dated October 17, 1929, and between U. S. Gypsum and Universal, dated November 5, 1929, and thereafter assigned to National, are illegal, null and void and were so held in two opinions of the Supreme Court in *United States* v. *United States Gypsum Company et al.* (333 U. S. 364, 340 U. S. 76), and in said final decree of the United States District Court for the District of Columbia.

For an Eighth Defense to Counts II and III of the Complaint:

1. Defendant repeats and realleges, as part of its eighth defense to Counts II and III of the complaint, each and every allegation in paragraphs 1 to 7 of its first defense, with the same effect as if fully set forth herein.

2. Each of the patent license agreements alleged to have been made on or about February 1, 1948 between U. S. Gypsum and National in Counts II and III of the complaint are illegal, null and void, and were so held in said final decree of the United States District Court for the District of Columbia. Each of said agreements constitutes "a supplement or amendment" to the patent license agreements listed in Article II of said final decree, and were

therefore adjudicated unlawful, null and void under Article IV of said final decree.

[fol. 1079] For a Ninth Defense to Counts II and III of the Complaint:

1. Defendant repeats and realleges, as part of its ninth defense to Counts II and III of the complaint, each and every allegation in paragraphs 1 to 7 of its first defense, with the same effect as if fully set forth herein.

2. The enforcement of the patent license agreements alleged to have been made on or about February 1, 1948 between U. S. Gypsum and National in Counts II and III of plaintiff's complaint—which defendant denies having made—would constitute a fraud upon the United States District Court for the District of Columbia and upon the Government. Articles II and IV of the final decree of the District Court of Columbia of May 15, 1951 are identical with the same paragraphs in the earlier District Court's decree of November 7, 1949. In the hearing on June 13, 1949, before the District Court of Columbia on the formulation of the November 7, 1949 decree, counsel for the Government stated:

> "Well the reason we use the broad language that we did, was: We didn't know what licenses might have been entered into subsequent to the last hearing on this case.
>
> "If USG will certify to this court that they have not any additional licenses, other than the ones that they refer to in their objection; and, if each licensee, in turn, will certify that they have not any other licenses, other than what is set forth in the objection . . ., we have no objection at all to having the provisions of this decree specify the licenses that USG mentions in their memorandum." (Tr. 8070)

In reply thereto, counsel for U. S. Gypsum stated:

> "Now, with reference to that list of patent license agreements, counsel for plaintiff has stated here that it is entirely agreeable to him that that list of licensees be incorporated provided that it can be certified that

those are the only agreements in effect between the parties.

[fol. 1080] "In attempting to deal with that situation specifically, we think that to avoid any possibility that there may be some amendments or supplements to those agreements which thus far have not come to our attention in connection with it, at the end of Article II of the form of decree attached to the defendants' memorandum these words might be added: • • • 'And any supplement or amendment to any of said patent license agreements.' With that addition, the list is obviously all-inclusive, and the certification requested may properly be made." (Tr. 8119)

U. S. Gypsum never thereafter brought to the attention of the United States District Court for the District of Columbia or to the Government the existence of the patent license agreements alleged in Counts II and III of the instant complaint. The enforcement by this Court of such alleged patent license agreements would enable U. S. Gypsum to perpetrate a fraud on the United States District Court for the District of Columbia and on the Government.

For a Tenth Defense to Counts II and III of the Complaint:

The enforcement of the patent license agreements alleged to have been made on or about February 1, 1948 between U. S. Gypsum and National in Counts II and III of plaintiff's complaint—which defendant denies having made—is barred by the statute of frauds, because said contracts were not in writing and were not to be performed within one year.

For an Eighth Defense to Count V of the Complaint:

1. Defendant repeats and realleges, as part of its eighth defense to Count V of the complaint, each and every allegation in paragraphs 1 to 7 of its first defense, with the same effect as if fully set forth herein.

[fol. 1081] 2. By the terms of the purported agreements of October 17, 1929 and November 5, 1929, the licenses granted therein were to continue unless terminated by a written notice of intention to terminate by either party, upon any default of the other in the obligations of the pur-

ported agreements, and a failure to cure such default within thirty days.

3. Although National did not pay royalties under said agreements to U. S. Gypsum for the period from February, 1948 to May 15, 1951, U. S. Gypsum did not exercise its power to terminate the purported agreements in the manner set forth therein. U. S. Gypsum at all times, until May 15, 1951, elected to treat National as an authorized user of its misused patents, including Roos Patent No. 2,017,022, and U. S. Gypsum is therefore estopped from claiming that defendant infringed its misused patents, including Roos Patent No. 2,017,022 for any period of time prior to May 15, 1951.

* * * * * * *

Defendant further alleges and shows to this Honorable Court:

The final decree of May 15, 1951 of the District Court of Columbia in *United States* v. *United States Gypsum Company et al.*, Civil Action No. 8017, provides in Article X thereof:

> "Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith."

On March 25, 1953, defendant petitioned the District Court of Columbia in *United States* v. *United States Gypsum Company et al.*, (a true copy of which is attached [fol. 1082] hereto as Exhibit B) for an order directing U. S. Gypsum to discontinue the within action against National, and for an injunction against maintaining any action for payment for use of any misused patent prior to May 15, 1951.

Wherefore, defendant prays:

1. That plaintiff's complaint herein be dismissed and that defendant be awarded its costs and reasonable attorneys' fees.
2. That this Court stay all proceedings herein until the determination of the issues raised in defendant's petition to the United States District Court for the District of Columbia.
3. That defendant be granted such further and general relief as may be proper.

Dated: May 28, 1953.

Finck & Huber, Esqs., 804 Liberty Bank Building, Buffalo 2, New York; Rosenman Goldmark Colin & Kaye, Esqs., 575 Madison Avenue, New York 22, New York; O'Connor, Thomas, McDermott & Wright, Esqs., 609 Bank and Insurance Building, Dubuque, Iowa. By: (S.) E. Marshall Thomas, Attorneys for Defendant.

[fol. 1083] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF IOWA, CENTRAL DIVISION

Civil Action No. 568

UNITED STATES GYPSUM COMPANY, an Illinois Corporation, Plaintiff,

vs.

CERTAIN-TEED PRODUCTS CORPORATION, a Maryland Corporation, Defendant

ANSWER OF CERTAIN-TEED PRODUCTS CORPORATION—Copy filed in United States District Court for the District of Columbia June 26, 1953

Now comes the defendant, *Certain-teed Products Corporation* (hereinafter referred to as "Certain-teed"), and

for answer to the complaint of the plaintiff United States Gypsum Company (hereinafter referred to as "U. S. Gypsum"), says:

Count I

1. Certain-teed admits the allegations of Paragraphs 1 and 2.

2. Certain-teed denies that this Court has jurisdiction of this cause, as alleged in Paragraph 3, by reason of the matters more fully hereinafter set out in Paragraphs 3, 4 and 5 hereof.

3. Certain-teed admits the allegations of Paragraphs 4, 5 and 6, but says that in addition to the provisions of the license agreement alleged in said Paragraphs, said license agreement provided as follows:

> [fol. 1084] (a) Certain-teed agreed to pay to U. S. Gypsum an amount equivalent to 1% of its selling price on all plaster board and gypsum wall board of every kind manufactured and sold by it to the date of the expiration of the last expiring patent issued upon certain applications then pending in the United States Patent Office, including application filed by Carlisle K. Roos, which application was granted on October 8, 1935, by the issuance of United States Patent No. 2017022 to U. S. Gypsum, as assignee of said Roos application.
>
> (b) Certain-teed agreed not to sell patented wall board to manufacturing distributors unless U. S. Gypsum gave its consent as to each purchaser.
>
> (c) U. S. Gypsum reserved the right to fix the minimum price at which Certain-teed sold wall board embodying U. S. Gypsum's patents.
>
> (d) The right, license and privilege granted by the license was indivisible and non-exclusive.
>
> (e) U. S. Gypsum was granted the right at all reasonable times to inspect the books of account and records of Certain-teed, and Certain-teed agreed to keep separate, full and accurate books of account and record showing the exact quantity of plaster board and gypsum wall board manufactured or sold by it.

4. Further answering Paragraphs 4, 5 and 6, Certain-teed alleges that on August 15, 1940, the United States of America, as plaintiff in the case entitled *"United States of America* v. *United States Gypsum Company, et al."* Civil Action No. 8017 in the District Court for the District of Columbia, filed its complaint against U. S. Gypsum, [fol. 1085] Certain-teed and others, charging violations of the Sherman Act. The complaint alleged that defendants were engaged in an unlawful combination to fix prices on patented gypsum board and unpatented gypsum products and to eliminate competition in the gypsum board industry and that such combination was effectuated by substantially uniform patent license agreements between U. S. Gypsum and the other defendants manufacturing such products, including the license agreement dated October 15, 1929, between U. S. Gypsum and Certain-teed.

That on March 8, 1948, the Supreme Court of the United States reversed the judgment of the District Court for the District of Columbia dismissing plaintiff's complaint, 333 U. S. 364, and held *inter alia* as follows:

> (a) From 1929, in which year U. S. Gypsum licensed all but two companies manufacturing gypsum board in substantially identical terms, U. S. Gypsum maintained rigid control over the price and terms of sale of virtually all gypsum board. Since 1937 the control was complete.
>
> (b) Under bulletins issued by U. S. Gypsum the gypsum industry accepted directions defining in minute detail both the prices and terms of sale of patented gypsum board.
>
> (c) Regardless of motive, the Sherman Act bars patent exploitation of the kind that was here attempted. The license agreements and the bulletins establish the conspiracy of the licensor and licensees to violate the Sherman Act.
>
> (d) Patents grant no privilege to their owners of organizing the use of those patents to monopolize [fol. 1086] an industry through price control, through royalties for the patents drawn from patent-free industry products, and through regulation of distribu-

tion. Here patents have been put to such uses as to collide with the Sherman Act's protection of the public from evil consequences.

(e) The licensor was to fix minimum prices binding both on itself and its licensees; the royalty was to be measured by a percentage of the value of all gypsum products, patented or unpatented; the license could not be transferred without the licensor's consent; the licensee opened its books of accounts to the licensor; the licensee was protected against competition with more favorable licenses and there was a cancellation clause for failure to live up to the arrangements.

(f) The *General Electric* case gives no support for a patentee, acting in concert with all members of an industry, to issue substantially identical licenses to all members of the industry under the terms of which the industry is completely regimented, the production of competitive unpatented products suppressed, a class of distributors squeezed out, and prices on unpatented products stabilized.

(g) By the record now presented, violation of the Sherman Act is clear.

After remand to the District Court for the District of Columbia, the United States of America, plaintiff, moved for sumary judgment, which that Court entered on November 7, 1949. Said plaintiff, United States of America, and defendant, U. S. Gypsum, appealed to the Supreme Court. The appeal of the latter was dismissed by the Su-[fol. 1087] preme Court, 339 U. S. 960. In its order of dismissal, the Supreme Court affirmed Article III of the decree of the District Court for the District of Columbia of November 7, 1949, stating:

> "'The defendant companies have acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain, and control the prices of gypsum board and have monopolized trade and commerce in the gypsum board industry in violation of Sections 1 and 2 of the Sherman Antitrust Act,' is affirmed."

The Supreme Court, pending its further order, also enjoined the corporate defendants from

> "(1) enforcing in any manner whatsoever the provisions of their current license agreements fixing, maintaining, or stabilizing prices of gypsum board or the terms and conditions of sale thereof * * *."

On appeal of the United States of America the Supreme Court, 340 U. S. 76, enlarged the provisions of the decree of the District Court for the District of Columbia entered November 7, 1949, and held

> (a) Price fixing licenses made in knowing concert by standardized price requirements violated the Sherman Act by their very existence.
>
> (b) A trial court, upon a finding of a conspiracy in restraint of trade and a monopoly, has the duty to compel action by the conspirators that will, so far as practicable, cure the effects of the illegal conduct and assure the public freedom from its continuance. The conspirators should, so far as practicable, be denied future benefits from forbidden conduct.
>
> (c) The District Court's decree was inadequate to cure the ill effects of the illegal conduct.

[fol. 1088] On May 15, 1951, pursuant to said second opinion of the Supreme Court, the District Court for the District of Columbia modified its prior decree in accordance therewith and entered its final decree, copy of which is attached hereto and marked "Exhibit A", containing the provisions, among other things, as follows:

"Article II

> "5. 'Patent Licenses' shall mean the patent license agreements which were in effect between defendant United States Gypsum Company and each of the other defendant companies at the time the complaint herein was filed and described in said complaint as follows:
>
> "Agreement dated October 15, 1929, between United States Gypsum Company, as licensor, and Certainteed Products Corporation, as licensee;"
>
> "* * * *

and any supplement or amendment to any of said patent license agreements."

"Article IV

"Each of the license agreements listed in Article II hereof is adjudged unlawful under the antitrust laws of the United States and illegal, null and void."

"Article X

"Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith."

5. Certain-teed admits the allegations of Paragraph 7 that it failed and refused to pay any license fees or royalties to U. S. Gypsum under said license agreement for the month of April, 1948, and continuing to May 15, 1951, but [fol. 1089] denies that during the whole of said period it continued under its said license to manufacture and sell gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2017022.

6. Certain-teed denies the allegations of Paragraphs 8 and 9.

Further answering the allegations of Paragraphs 8 and 9, Certain-teed alleges that the final decree of the District Court for the District of Columbia, entered pursuant to the said opinions of the Supreme Court, declared and held the license agreement sued upon herein to be unlawful under the anti-trust laws of the United States and illegal, null and void. By reason thereof, U. S. Gypsum is barred from enforcing in this suit said illegal license agreement, and this Court should declare and hold said illegal license agreement to be unenforceable.

Further answering the allegations of Count I of U. S.

Gypsum's complaint, Certain-teed alleges that by said final decree of the District Court for the District of Columbia, entered pursuant to said opinions and directions of the Supreme Court, it was adjudicated and determined that the license agreement sued upon herein was illegal, null and void, and thereby and thereupon said license agreement became and was cancelled. By reason of its unlawful conduct, found, determined and established by the Supreme Court and by the District Court for the District of Columbia, U. S. Gypsum was found guilty of participation in an unlawful conspiracy in violation of the Sherman Act and, therefore, is barred from enforcing the license agreement upon which U. S. Gypsum seeks to recover in Count I of its complaint.

Count II.

[fol. 1090] 1. Certain-teed repeats and alleges as its answer to Paragraph 1 each and all of the allegations contained in Paragraphs 1, 2, 3 and 4 of its answer to Count I of the complaint, with like effect as if herein fully set forth.

2. Certain-teed denies the allegations of Paragraphs 2 and 3.

Further answering the allegations of Paragraphs 2 and 3, Certain-teed alleges that in and by the final decree entered by the District Court for the District of Columbia on May 15, 1951, it was provided, among other things, in Article II thereof, that "patent licenses," as defined thereunder, mean the patent license agreements which were in effect between U. S. Gypsum and each of the other defendant companies, including Certain-teed, at the time the complaint was filed by the United States of America, and also "any supplement or amendment to any of said patent license agreements."

Said final decree of the District Court for the District of Columbia, in Article IV thereof, adjudged each of the license agreements listed in Article II thereof, including any amendment or supplement thereto, to be unlawful under the anti-trust laws of the United States and illegal, null and void; that said Paragraphs 2 and 3 constitute a claim under said illegal, null and void license agreement, as supplemented or amended, and is, therefore, in contravention of the final decree of the District Court for the District of

Columbia, and by reason thereof U. S. Gypsum's claim for enforcement of said license agreement, as amended and supplemented, is barred.

[fol. 1091] Further answering the allegations of Paragraphs 2 and 3, Certain-teed alleges that the final decree of the District Court for the District of Columbia, entered pursuant to said opinions of the Supreme Court, declared and held the license agreements, as supplemented or amended, to be unlawful under the anti-trust laws of the United States and illegal, null and void. By reason thereof U. S. Gypsum is barred from enforcing in this suit said illegal license agreement, as supplemented or amended, and this Court should declare and hold said license agreement, as so amended or supplemented, to be unenforceable.

Count III.

1. Certain-teed repeats and alleges as answer to Paragraphs 1 each and all of the allegations contained in Paragraphs 1 and 2 of its answer to Count I of the complaint, with like effect as if herein fully set forth.

2. Certain-teed admits the allegations of Paragraphs 2, 3 and 4.

Further answering said Paragraphs 2, 3 and 4, plaintiff repeats and alleges as part of its answer thereto each and all of the allegations contained in Paragraphs 3 and 4 of its answer to Count I of the complaint, with like effect as if herein fully set forth.

3. Certain-teed admits that, as alleged in Paragraph 5, it repudiated its license agreement with U. S. Gypsum and discontinued the payment of license fees or royalties payable or to be paid thereunder and refused to be bound by any of the provisions thereof, and says that it did so in conformity with and pursuant to the adjudication and deter- [fol. 1092] mination of the Supreme Court, which held said license agreement to be in violation of the Sherman Act and illegal, null and void. Certain-teed denies the remaining allegations of Paragraph 5 and denies the allegations of Paragraph 6.

Further answering Paragraph 6, Certain-teed repeats and alleges as answer thereto, each and all of the allegations

contained in Paragraph 2 of its answer to Count II of the complaint, with like effect as if herein fully set forth.

4. Certain-teed denies the allegations of Paragraphs 7 and 8.

Count IV.

1. Certain-teed repeats and alleges as answer to Paragraph 1 each and all of the allegations contained in Paragraphs 1 and 2 of its answer to Count I of the complaint, with like effect as if herein fully set forth.

2. Certain-teed denies the allegations of Paragraph 2.

Further answering the allegations of Paragraph 2, Certain-teed alleges that by the proceedings heretofore had in the District Court for the District of Columbia and the Supreme Court, it has been found, adjudicated and determined that plaintiff through the licensing agreements hereinbefore referred to and by the use of its patents, had entered into an unlawful conspiracy in restraint of trade in violation of the Sherman Act, by which it had control over the prices at which gypsum board and other gypsum products were sold and the persons to whom sales of such [fol. 1093] products might be made; that the decisions of the Supreme Court and the District Court for the District of Columbia bar the plaintiff from any recovery for the use of the processes or devices embodied in Patent No. 2017022 on the theory of *quantum meruit* or on any other legal theory; and that by the provisions of Count IV of its complaint, U. S. Gypsum seeks to recover the reasonable value of the use of its patents which were used as an instrumentality and means for perpetrating an unlawful conspiracy and restraint of interstate commerce in violation of the Sherman Act and that the claim set forth in Count IV constitutes an attempt to recover benefits directly arising from and based upon the unlawful conspiracy and unlawful conduct of plaintiff in entering into price-fixing contracts and other restraints upon interstate trade and interstate commerce in violation of the Sherman Act.

Further answering the allegations of Paragraph 2, Certain-teed alleges that by the decree entered in the cause hereinbefore referred to in the District Court for the District of Columbia, it was adjudicated and determined that U. S. Gypsum had used its patents, including U. S. Patent

No. 2017022, as an instrumentality and means of restraining trade and commerce in gypsum board and allied gypsum products in violation of the Sherman Act; and that the decree of said District Court constitutes an adjudication and determination that U. S. Gypsum may not recover for the alleged use of the processes or devices referred to and covered by the said patents, including Patent No. 2017022.

Further answering the allegations of Paragraph 2, Certain-teed alleges that if U. S. Gypsum has any claim or [fol. 1094] cause of action against Certain-teed, it can only be asserted in the District Court in and for the District of Columbia by way of modification of the decree of said court hereinbefore referred to, and that this court cannot award U. S. Gypsum any relief by way of *quantum meruit* recovery or otherwise in the face of the adjudication made by the Supreme Court and the District Court for the District of Columbia in the proceeding above referred to.

Count V.

1. Certain-teed repeats and alleges as its answer to Paragraph 1 the allegations contained in Paragraphs 1 and 2 of its answer to Count I of the complaint, with like effect as if herein fully set forth.

2. Certain-teed denies the allegations of Paragraph 2 and repeats and alleges as part of its answer to Paragraph 2, each and all of the allegations contained in Paragraphs 3, 4 and 5 of its answer to Count I.

3. Certain-teed admits the allegations of Paragraph 3.

4. Certain-teed denies the allegations of Paragraphs 4, 5 and 6.

Further answering Paragraphs 4, 5 and 6, Certain-teed alleges that said Patent No. 2017022 is invalid and void.

Further answering Paragraphs 4, 5 and 6, Certain-teed alleges that as a matter of law the final decree of the District Court for the District of Columbia bars the claim of U. S. Gypsum for infringement prior to the entry of said final decree. By said decree it was finally determined that U. S. Gypsum unlawfully used said Patent No. 2017022.

[fol. 1095] The final decree in the cause above referred to constitutes an adjudication by the Court that U. S. Gypsum had unlawfully used its said Patent No. 2017022 and that

such unlawful conduct bars recovery by it for any infringement of said patent.

5. Further answering Paragraphs 4, 5 and 6, Certain-teed alleges that U. S. Gypsum may not recover for infringement of Patent No. 2017022 from Certain-teed by reason of the fact that it used said patent unlawfully and in violation of the provisions of the Sherman Act to restrain trade and commerce in gypsum board and other gypsum products for a period of many years, and that said unlawful conduct was found, established and determined by the decisions of the courts hereinbefore referred to. Prior to the entry to said final decree, U. S. Gypsum did not notify Certain-teed or any other licensees or other gypsum manufacturers that it claimed infringement of its Patent No. 2017022 during the period of said litigation; by reason of all of the foregoing U. S. Gypsum may not now assert that it is entitled to recover from Certain-teed for infringement.

Further answering Counts I to V, inclusive, of U. S. Gypsum's complaint, Certain-teed says:

[fol. 1096] 1. Certain-teed repeats and alleges all of the allegations contained in Paragraphs 2, 3, 4, 5, and 6 of its answer to Count I, Paragraph 2 of its answer to Count II, Paragraphs 2 and 3 of its answer to Count II, Paragraph 2 of its answer to Count IV, and Paragraphs 4 and 5 of its answer to Count V, with like effect as if herein fully set forth.

2. In and by its complaint herein, U. S. Gypsum did not allege and failed to advise this Court of the proceedings in the District Court for the District of Columbia, the opinions handed down by the Supreme Court of the United States on appeals from the decrees entered by the District Court for the District of Columbia and the final decree entered by that Court on May 15, 1951, all of which opinions and decrees are heretofore more fully described in this answer.

3. U. S. Gypsum, in filing its complaint in this Court, despite the entry of said final decree in the District Court for the District of Columbia, acted in violation of the terms of said decree and stands in contempt of that Court. The complaint filed herein is an attempt to circumvent said final decree and, in any event, that relief sought in this

action by U. S. Gypsum, if granted, would be in conflict with the decree of the United States District Court for the District of Columbia.

[fol. 1097] 4. The United States of America was the plaintiff in the anti-trust action instituted in said Court and was necessarily a party to the final decree entered by said Court. By reason thereof the United States of America is a necessary and indispensable party to the action pending in this Court, and therefore it cannot be maintained without the joinder of the United States of America as a party thereto.

5. Certain-teed has heretofore filed in the District Court for the District of Columbia its petition for enforcement of compliance by U. S. Gypsum with the final decree of that Court entered on May 15, 1951, and for an order temporarily and permanently enjoining U. S. Gypsum from further prosecuting this action, from asserting any claim against Certain-teed, for payment for the use of said misused Patent No. 2017022, from instituting or threatening to institute, or maintaining or continuing action for payment for the use of any misused patent for any period prior to May 15, 1951, and that U. S. Gypsum be directed to discontinue and dismiss with prejudice to it this action, which Petition is attached hereto as "Exhibit B".

U. S. Gypsum has also filed an action in this Court, identified herein as Clerk's No. 564, against National Gypsum Company, which action, except for names, dates and amounts, is substantially the same as this action, and which prays for the same relief. National Gypsum Company has also heretofore filed its petition in the District Court for the District of Columbia for orders, modifications or directions for the enforcement, construction or carrying out of the final decree of that Court entered on May 15, 1951, and for injunctive relief against U. S. Gypsum similar to that prayed for in said petition filed by Certain-teed. The said petitions of Certain-teed and National Gypsum [fol. 1098] Company are pending and undetermined in the District Court for the District of Columbia, because the Chief Judge of that Court has not yet been able to assemble a statutory three-judge court which must consider and pass upon said petitions.

6. The District Court for the District of Columbia has

paramount jurisdiction over the matters involved in this suit, and the suit filed by U. S. Gypsum in this Court should be dismissed because it is in violation of said paramount jurisdiction and constitutes an attempt to circumvent and avoid it. In effect, the suit filed herein by U. S. Gypsum is an attempt to modify the decree of the District Court for the District of Columbia, which Court has paramount jurisdiction of the matters here involved, and, therefore, this Court should dismiss U. S. Gypsum's complaint.

Wherefore, defendant, Certain-teed, prays as follows:

1. That this Court find, decree, establish, determine and declare that the license agreement dated October 15, 1929, between U. S. Gypsum and Certain-teed, has been found and adjudicated to be illegal, null and void; that by reason of the said proceedings heretofore had in the District Court for the District of Columbia and in the Supreme Court, that this Court find, determine and declare that U. S. Gypsum is barred from suing upon said licensing agreements or any of them; that U. S. Gypsum may not, under the guise of *quantum meruit* or claim for infringement claim recovery from Certain-teed of any sums for the use of patents referred to in said agreement, including Patent No. 2017022. [fol. 1099] 2. That the Court decree that said license agreement was not amended or supplemented by agreement between Certain-teed and U. S. Gypsum; that if the Court holds that said license agreement was amended or supplemented, as alleged by U. S. Gypsum, that the license agreement as so amended or supplemented be held to be illegal, null and void, and unenforceable, and that U. S. Gypsum be barred from enforcing the same.

3. That the Court decree that U. S. Gypsum be barred from recovering under the rule of *quantum meruit,* and that the Court decree that Certain-teed has not infringed Patent No. 2017022; that, in the alternative, if the Court finds that Certain-teed has infringed said Patent No. 2017022, that the Court decree that by reason of U. S. Gypsum's misuse thereof, no royalty or license fee can be recovered thereon prior to the entry of the final decree of May 15, 1951, by the District Court for the District of Columbia.

4. That the Court decree that U. S. Gypsum is barred and prevented from maintaining its action in this Court or, in the alternative (a) that the District Court for the District of Columbia has paramount jurisdiction over the matters in issue herein and, therefore, U. S. Gypsum's complaint should be dismissed with prejudice or, in the alternative (b) this Court should not lend its aid to the enforcement of U. S. Gypsum's claim upon its illegal license agreement, or for the use of processes or devices or product embodied in said misused patent No. 2017022 on the theory of *quantum meruit* or any other theory, and this Court should decree and hold the claims asserted by U. S. Gypsum in its complaint to be unenforceable.

[fol. 1100] 5. That the complaint be dismissed, and that Certain-teed have judgment against the plaintiff for its costs wrongfully sustained.

(S) Herbert W. Hirsh, Norman A. Miller, Clausen, Hirsh & Miller; A. B. Howland; Gamble, Read, Howland, Gamble & Riepe; Dwight G. Rider, Attorneys for Defendant.

Clausen, Hirsh & Miller, 135 South LaSalle Street, Chicago 3, Illinois; Gamble, Read, Howland, Gamble & Riepe, 500 Bankers Trust Building, Des Moines 9, Iowa; Rider & Bastian, 206-209 State Bank Building, Fort Dodge, Iowa.

[fol. 1101] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

Civil Action No. 8017

[Title omitted]

PETITION OF UNITED STATES FOR ORDERS OR DIRECTIONS FOR THE CONSTRUCTION, CARRYING OUT OR ENFORCEMENT OF THE FINAL DECREE OF MAY 15, 1951—Filed June 30, 1953

Comes now the United States of America and respectfully shows as follows:

1. Petitioner, United States, is plaintiff in the above-entitled action. United States Gypsum Company (USG), National Gypsum Company (National), Certain-teed Products Corporation (Certain-teed), Ebsary Gypsum Company, Inc. (Ebsary), and Newark Plaster Company (Newark) are all defendants in the above-entitled action.

2. On May 15, 1951, this Court entered its final decree in the above-entitled action. Article IV of said decree "adjudged unlawful under the anti-trust laws of the United States and illegal, null and void" each of the license agreements listed in Article II of the decree. By Article X of the decree, this Court retained jurisdiction of the cause [fol. 1102] and of the parties "for the purpose of enabling any of the parties * * * to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith."

3. In the early part of 1953, USG brought the following actions seeking to recover, under certain of the license agreements which this Court had adjudged unlawful under the antitrust laws and illegal, null and void, the royalties specified in such license agreements:

a. An action against National in the District Court for the Northern District of Iowa (Civil Action No. 564)

seeking royalties for the period February 1, 1948, to May 15, 1951.

b. An action against Newark in the District Court for the District of New Jersey (Civil Action No. 93-53) seeking royalties for the period February 1, 1948, to May 15, 1951.

c. An action against Ebsary in the District Court for the Southern District of New York (Civil Action No. 83-83) seeking royalties for the period March 1, 1948, to May 15, 1951.

d. An action against Certain-teed in the District Court for the Northern District of Iowa (Civil Action No. 568) seeking royalties for the period April 1, 1948, to May 15, 1948.

4. In the aforesaid actions USG alleged, as alternative claims against the respective defendants therein, that USG is entitled to recover either the reasonable value of the use of certain of its patents or due compensation for the infringement of these same patents. The patents on which the alternative claims are based, except patent No. 2,044,401, were licensed to the said defendants under the agreements which this Court had adjudged illegal, null and void.

[fols. 1103-1108] 5. Your petitioner alleges that insofar as the aforesaid actions by USG base any claim for recovery on any of the license agreements adjudged illegal, null and void by this Court's final decree of May 15, 1951, such actions are barred by, and constitute an attempt to defeat, said decree.

6. With respect to the alternative claims set forth in the aforesaid actions, your petitioner takes no position as to whether such alternative claims are barred by this Court's final decree of May 15, 1951, or as to whether this Court should enter an order enjoining USG from prosecuting such alternative claims.

Wherefore, your petitioner prays:

I. That this Court enjoin USG from asserting any claim, and from instituting, threatening to institute, or maintaining any action, based, in whole or in part on any of the license agreements adjudged illegal, null and void

by the final decree of this Court entered on May 15, 1951, or on any provision thereof.

II. That your petitioner have such other and further relief as to this Court may seem just and proper.

Edward Knuff, Special Assistant to the Attorney General; Vincent A. Gorman, Lawrence Gochberg, Trial Attorneys.

Stanley N. Barnes, Assistant Attorney General; Edwin H. Pewett, Chief, Judgments and Judgment Enforcement Section.

June 30, 1953.

[fol. 1109] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF IOWA CENTRAL DIVISION

UNITED STATES GYPSUM COMPANY, AN ILLINOIS CORPORATION, Plaintiff,

vs.

CERTAIN-TEED PRODUCTS CORPORATION, A MARYLAND CORPORATION, Defendant

Civil Action No. 568

MOTION OF CERTAIN-TEED PRODUCTS CORPORATION FOR STAY OF PROCEEDINGS—(Copy filed in United States District Court for the District of Columbia—July 3, 1953)

Defendant Certain-teed Products Corporation (hereinafter sometimes referred to as "Certain-teed") moves this Honorable Court for an order staying all further proceedings herein until determination of the issues raised by defendant's Petition filed in the United States District Court for the District of Columbia on April 22, 1953, entitled "Petition of Certain-teed Products Corporation for Enforcement of Compliance with Final Decree of May

15, 1951", and attached to defendant's Answer heretofore filed herein, as Exhibit B.

In support of its Motion, defendant Certain-teed states the following:

1. If the issues raised by Certain-teed's Petition in the District Court for the District of Columbia are determined in Certain-teed's favor by that Court, the plaintiff in this action, United States Gypsum Company, (hereinafter sometimes refered to as "USG") will be enjoined from prosecuting the instant action.

2. Certain-teed's Petition in the District Court for the District of Columbia is meritorious, and defendant believes there is a substantial probability that the issues therein raised will be decided favorably to Certain-teed. Such disposition of Certain-teed's Petition would avoid con-
[fol. 1110] sideration by this Court of the instant action.

3. A stay of the instant action pending determination of the issues raised by Certain-teed's Petition will avoid the simultaneous consideration by this Court and the District Court for the District of Columbia of identical questions of law and of fact. Avoidance of such simultaneous consideration by two courts is in the interest of economic judicial administration. In addition, the dissipation of the efforts of counsel for both parties will be avoided.

4. Unless the instant action is stayed, Certain-teed may be subjected to conflicting Court orders.

5. This Court has before it only two of the parties to the final decree of the District Court for the District of Columbia. Since the construction of the decree is in issue in the instant action, United States of America, plaintiff in the anti-trust suit in which said decree was entered, is a necessary and may well be an indispensable party thereto. The United States of America is not now a party to the instant action. The District Court for the District of Columbia has before it all the parties, including the United States of America, interested in the application of that decree to the said actions brought by USG in this and other Federal District Courts.

6. The District Court for the District of Columbia, having tried the anti-trust action which eventuated in the Final

Decree of May 15, 1951, is fully familiar with the lengthy factual record on which the decree was rendered.

[fol. 1111] 7. USG's actions in this and other Federal District Courts are not merely private disputes; these actions raise important questions involving the public interest in the enforcement of the anti-trust laws and of the decree entered in an anti-trust action by the District Court for the District of Columbia. The orderly administration of justice requires that the court which dealt directly with these issues should determine at the outset whether USG's actions in this and other courts are inconsistent with the anti-trust decree and whether those actions defeat the purpose of that decree.

8. In Article X of the Final Decree of May 15, 1951, the District Court for the District of Columbia expressly reserved its jurisdiction to consider questions such as those raised by Certain-teed's Petition. To allow the instant action to go forward would impair and tend to defeat that reserved jurisdiction.

9. Even dismissal of the instant action by this Court might not fully protect Certain-teed. The very bringing of the instant action by USG, notwithstanding the decree in the anti-trust case, indicates that an injunctive order, as prayed in Certain-teed's Petition in the District Court for the District of Columbia, may be the only means of fully effectuating that Court's final decree and thus fully protecting Certain-teed's rights.

10. Certain-teed has been diligent in seeking a determination by the District Court for the District of Columbia of the issues raised by its said Petition.

11. USG will not be injured in any way by the stay of the instant action until the determination of the issues [fol. 1112] raised by Certain-teed's petition in the District Court for the District of Columbia. Certain-teed is able and will be able to meet the obligation of any judgment which plaintiff could obtain in the instant action.

12. On June 9, 1953, a pre-trial conference on said petition of Certain-teed and upon similar petitions of National Gypsum Company, Ebsary Gypsum Company, Inc., and Newark Plaster Company, defendants in actions instituted by USG in this Court, the United States District for the Southern District of New York and the District of New

Jersey, respectively, and which involve issues similar, in part, to those which are involved in the suit filed by USG in this Court against Certain-teed, was held. At such hearing said petitioners advised the District Court for the District of Columbia that they had filed or intended to file motions for stays in the respective Courts where suit had been instituted against them by USG; that if they were denied relief in such Courts they reserved the right to move in said District Court for the District of Columbia for a temporary restraining order; that at the time of such hearing, although said petitioners were asking for a temporary injunction on the merits after submission of the cause, they were not then asking said Court for a temporary restraining order.

The following appears in the transcript of said pre-hearing conferences:

> "Chief Judge Stephens: No temporary restraining order seems to be requested at this present time. Counsel for the petitioners apparently being of the view that those judgments will not be entered in the several other jurisdictions in the immediate future, or if such [fol. 1113] judgments were threatened, it being the opinion of view that the trial court there would suspend proceedings until this court has had an opportunity to act.
>
> What have you to say on that in substance? Of course, regardless of our ultimate decision on the question of jurisdiction which may be raised, we have jurisdiction to preserve our own jurisdiction, and there ought not to be an entry of judgment in the other courts while this case is pending here; otherwise, should we ultimately find that we have jurisdiction and that the petitioner is entitled to an injunction our relief might be futile, nugatory.
>
> What have you to say in that respect, Mr. Spray? (Counsel for USG) Is there (Tr. 32) any likelihood of these proceedings in the other jurisdictions going forward to the point of judgment while we are considering this matter this morning or in the early fall, if that should be prolonged so long?
>
> Mr. Spray: I think not. It has been called to my

attention that possibly I misunderstood Mr. Justice Cole's question. It may have been directed to what our position would be on these motions that are being filed out there,

Was that your question?

Judge Cole: My question was exactly as Chief Judge Stephens asked. I understood that several counsel asked that the proceedings be suspended pending the outcome of this petition and hearing here.

Mr. Spray: My answer to both questions—I am glad it has been brought up again—is that we, of course, have brought a suit earnestly and sincerely and called upon the court to assume jurisdiction in the matter [fol. 1114] in these other jurisdictions. And we did that in the belief that that was the proper jurisdiction, and that this is not.

In those motions before those courts we certainly would state the same position, as I say, we stated here, that we do not believe that this court should act in this matter and that we do believe that that court had jurisdiction.

However, I think I can state with complete confidence that there is not any question of these things going to judgment (Tr. 33) before there could be a decision of this court in the fall. There just is not any possibility or likelihood at all of that.

The suits in New Jersey and in New York have not even been joined. There has been no answer filed.

The suits out in Iowa have formed an issue, but it is perfectly clear that they could not be and would not be tried. And I can be very confident of that, Your Honor, that there will be no judgment before you could act on it here. (Tr. 34)

• • • • • • •

Chief Judge Stephens: Well, there certainly ought not to be any unseemly race or competition for jurisdiction in these cases as between these several United States District Courts concerned. And we feel sure there will not be, certainly, so far as counsel on either side of this case are concerned. And we would assume that the other courts would suspend the proceedings

there in some manner until we had an opportunity to hear you here, since we have jurisdiction over our own decree, at least, to some extent under our reservation of the jurisdiction.

• • • • • • •

[fol. 1115] Chief Judge Stephens: Of course, we would take steps here to protect our own jurisdiction, that is, to preserve our jurisdiction for the purpose of hearing this proceeding if it became necessary, but since no application for a stay order hase been (Tr. 37) made now, that is, for a temporary restraining order, in view of the statements made by counsel on both sides, we will assume that there will be no necessity for stay orders, that is, for temporary restraining orders at the present time or later. Of course, counsel may apply for such an order should exigencies arise demanding it. (Tr. 38)

• • • • • • •

Chief Judge Stephens: • • • we have been given at least informal assurance this morning that those suits (the suits filed by USG in the various District Courts, as heretofore described) will not be actively prosecuted until this court gets a chance to express itself. (Tr. 42)

• • • • • • •

Chief Judge Stephens: It would seem to me that it would be quite improvident to go forward to any conclusive action in this litigation in these other suits while this case is pending here. And I would not think that the parties on either side would be disposed to do that. I would think that if the parties to the foreign suits would make the situation known to the judges in those suits they (Tr. 49) would not be disposed to press the case on.

However, if any emergency arises in which either side needs relief from this court we will make ourselves accessible some way or another. (Tr. 50)

• • • • • • •

[fol. 1116] Judge Cole suggests that it would be desirable, Mr. Spray, if you can do so, for you to make a

definite commitment with reference to not proceeding in these other cases. Would that be possible for you to do either now or later?

Mr. Spray: I have hesitated to do that for the reason I said this morning, but I have certainly heard everything the court has said today. And I intend to guide myself accordingly, but having called upon these other courts and filed the suits, I just had some hesitancy coming down here and making a commitment about it. But I certainly do not intend to take an action that I think would be disapproved by this court. (Tr. 55)

Chief Judge Stephens: We understand that, but we understand also your reluctance to commit yourself to a program that might possibly develop to be inconsistent with the wishes of the judges in the other jurisdictions, but I think you, in effect, have committed yourself. I do not mean to bind you to this, but I think you have, in effect, committed yourself not to proceed in the other cases until this court has had an opportunity to express itself unless you are required to do so by the action of the judges elsewhere.

Mr. Spray: That is the point.

Chief Judge Stephens: Is that correct?

Mr. Spray: I think that is quite correct, yes, sir.

Chief Judge Stephens: Of course, if action is contemplated elsewhere as the result of the insistence of the judges elsewhere, the gentlemen who represent the petitioners are entitled to apply here for a temporary [fol. 1117] restraining order, but I think there will be no practical difficulty about that. I should not think that the other judges would insist upon going forward with the case if the counsel do not desire to." (Tr. 56)

13. By virtue of the matters set out in Paragraph 11 hereof, the District Court for the District of Columbia made clear that it considered that it had primary jurisdiction of the matters involved in this suit; that it had jurisdiction to preserve its own jurisdiction; that there ought not to be a further pursuit of the proceedings filed in this Court and in the other Federal District Courts by USG, and that no further action ought to be taken and no

judgment ought to be entered therein before the District Court for the District of Columbia could act upon said Petitions pending before it, and the Answers of USG and the United States of America to be in response thereto, and upon the briefs and authorities to be submitted by all of the parties.

Wherefore, defendant Certain-teed Products Corporation prays this Honorable Court for an order staying all further proceedings herein until determination of the issues raised by said Petition filed by it in the United States District Court for the District of Columbia on April 22, 1953.

(S) Herbert W. Hirsh; Norman A. Miller; Clausen, Hirsh & Miller; A. B. Howland; Gamble, Read, Howland, Gamble & Riepe; Dwight G. Rider, Attorneys for Defendant.

[fol. 1118] *Duly sworn to by Norman A. Miller; jurat omitted in printing.*

[fol. 1119] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF IOWA CENTRAL DIVISION

Civil Action No. 568

UNITED STATES GYPSUM COMPANY, an Illinois Corporation, Plaintiff,

against

CERTAIN-TEED PRODUCTS CORPORATION, a Maryland Corporation, Defendant

PLAINTIFF'S STATEMENT WITH RESPECT TO DEFENDANT'S MOTION FOR STAY—(Copy filed in United States District Court for the District of Columbia—July 13, 1953)

Now comes plaintiff, United States Gypsum Company (hereinafter sometimes referred to as U. S. Gypsum), by its attorneys, and respectfully submits the following state-

ment as to the motion for stay hereinbefore filed in this cause by defendant, Certain-teed Products Corporation (hereinafter sometimes referred to as Certain-teed), for an order staying all further proceedings herein until determination of the issues raised by the petition filed by Certain-teed in the United States District Court for the District of Columbia on April 22, 1953:

I

General objection to defendant's motion for stay and answer to grounds advanced by defendant in support thereof.

Plaintiff objects generally to the effort by defendant Certain-teed to avoid a determination by this court of the issues herein by the filing of its petition in the District of Columbia court on April 22, 1953 and by the filing of its motion for stay of these proceedings, and specifically answering the grounds advanced by defendant Certain-teed in support of its said motion for stay, plaintiff U. S. Gypsum respectfully shows unto the court as follows:

1. Answering paragraphs 1 and 2 contained in defendant's motion, plaintiff admits that if the issues raised by Certain-teed's petition in the District of Columbia court are determined in its favor, the plaintiff in this action might be enjoined from prosecuting this suit, or one or more counts of the complaint herein, but plaintiff denies that Certain-teed's said petition is meritorious, denies that [fol. 1120] there is a substantial probability that the issues therein raised will be decided favorably to Certain-teed, and denies that the disposition of Certain-teed's petition in the District of Columbia court will avoid consideration by this court of issues formed in this cause.

2. Plaintiff admits the averments contained in paragraph 3 of Certain-teed's motion for stay, except that it avers that a stay of the action as prayed for may or may not avoid simultaneous consideration by this court and by the District of Columbia court of identical questions of law and of fact as averred in said paragraph 3. Further answering, plaintiff avers that the simultaneous consideration of identical questions by two courts and the dissipation of

the efforts of counsel, which defendant now purportedly seeks to avoid, are the direct result of defendant's action in filing its petition in the District of Columbia court following the filing of plaintiff's suit against it in this court, and therefore are not available to defendant as grounds for the granting of its motion for stay.

3. Answering the averments contained in paragraph 4 of defendant's motion for stay, plaintiff avers that there is a possibility, but not a probability, of conflicting orders being entered by this court and the District of Columbia court in the two proceedings, and that every reasonable effort should be made to avoid if possible the entering of such conflicting orders.

4. Answering paragraph 5 of defendant's motion for stay, plaintiff admits that this court has before it in this case only two of the parties to the final decree of the District Court of the District of Columbia and admits that the United States of America is not a party to this action, but denies each and every other averment contained in said paragraph.

5. Plaintiff admits the averments contained in paragraph 6 of defendant's motion for stay.

6. Plaintiff denies each and every averment contained in paragraphs 7, 8 and 9 of defendant's motion for stay.

7. Plaintiff is without knowledge or information sufficient to form a belief as to the truth of the averments contained in paragraph 10 of defendant's motion for stay.

8. Plaintiff denies the averments contained in paragraph 11 of defendant's motion for stay.

[fol. 1121] 9. Plaintiff admits the averments contained in paragraph 12 of defendant's motion for stay, except as hereinafter denied or qualified. Further answering, plaintiff avers that the quotations taken from the transcript of the June 9, 1953 prehearing conference are only a portion of the stenographic transcript of said proceedings and contain certain errors in transcription which will be subject to correction at the next hearing before the District of Columbia court, but further avers that the full transcript of the hearing, and any corrections which might be made in the transcript quoted in said paragraph 12, would not change in any substantial manner the essence of the material presented in the quotations set forth in said para-

graph 12. Further answering, plaintiff denies that the word "not" in the fourth line of the first quotation set forth at the bottom of page 4 of defendant's motion for stay, appeared in the stenographic transcript as submitted to plaintiff.

10. Plaintiff denies each and every averment contained in paragraph 13 of defendant's motion for stay, except that plaintiff admits that at the June 9, 1953 prehearing conference the District of Columbia court stated that, regardless of its ultimate decision on the question of jurisdiction, it had jurisdiction to preserve its own jurisdiction and expressed the view that there ought not to be an unseemly race for judgment in any of the various federal district courts in which the matters referred to were pending and that judgment ought not be entered in the other courts before the District of Columbia court could act upon the questions raised in that proceeding.

II

Plaintiff's suggestion as to defendant's motion for stay in view of the pending proceedings before the District of Columbia court.

1. Plaintiff filed its suit against defendant Certain-teed in this court in good faith and with the intention and expectation of prosecuting the case diligently. However, plaintiff can not be unmindful of the fact that by reason of certain petitions filed in the District of Columbia court, including one filed therein by Certain-teed, two federal district courts have been called upon to determine like issues, and that a reasonable procedure must be adopted to permit an orderly disposition of the matter in each court.

[fol. 1122] 2. On June 9, 1953, a prehearing conference was called in Washington, D. C. by the three-judge statutory court sitting as the District Court for the District of Columbia, at which session parties to the prior action in that court, including the plaintiff and the defendant in this case, were represented by their respective attorneys. In said prehearing before the District of Columbia court, the Honorable Harold M. Stephens, presiding Justice, as shown

in defendant's motion for stay, expressed confidence that neither the courts nor the parties to the respective actions would indulge in any unseemly race for jurisdiction over the questions raised, and expressly requested counsel for U. S. Gypsum not to take action in this court which would have the effect of bringing this cause to judgment before the District of Columbia court might have the opportunity of determining questions raised by the petitions filed in that cause. In answer to this request counsel for U. S. Gypsum, out of deference to this court, explained that he fully understood and appreciated the position of the District of Columbia court in this respect but indicated that he could not so stipulate without advising this court of the situation which had arisen and asking its permission so to do.

3. At the June 9, 1953 prehearing conference held before the District of Columbia court as aforesaid, plaintiff U. S. Gypsum took the position that that court did not have jurisdiction to determine the issues presented to it by the petition filed in said court by Certain-teed, stating in substance:

(a) that there is no provision in the decree entered in the District of Columbia court on May 15, 1951, enjoining U. S. Gypsum from seeking to collect or to recover compensation for the actual use of its patents prior to the entry of said decree or enjoining Certain-teed from paying for the actual use it may have made of U. S. Gypsum's patents prior to the entry of said decree;

(b) that such an issue was not before the District of Columbia court in the proceeding which culminated in the decree of May 15, 1951, as will appear from an examination of the pleadings in that case, the evidence submitted, the findings and orders of the trial court, and the opinions of the trial court (67 F. Supp. 397) and the Supreme Court (333 U. S. 364; 340 U. S. 76);

(c) that such an issue could not have been determined by the District of Columbia court at the time it entered its decree of May 15, 1951, under the issues raised by the pleadings then filed in said cause;

[fol. 1123] (d) that Certain-teed's petition in the District of Columbia court is not within the reserva-

tion of jurisdiction contained in Article X of said decree of May 15, 1951, but on the contrary seeks to enlarge the injunctive provisions of said decree to cover matters not included therein, and which could not have been included at the time the decree was entered on the then state of the record;

(e) that Certain-teed's petition in the District of Columbia court seeks to obtain an adjudication on matters not reserved by said special statutory court in its said decree; and

(f) that Certain-teed's petition in the District of Columbia court represents an effort on Certain-teed's part to take the jurisdiction away from this court, a federal court of competent jurisdiction, which has already had the issues presented to it and which is ready, willing and able to bring the case on for trial and a prompt determination of those issues;

all as appears from the stenographic transcript of said proceedings, a copy of which plaintiff will produce at the hearing before this court on defendant's motion for stay. Plaintiff intends to present these objections to the jurisdiction of the District of Columbia court, together with the authorities in support of its position, in the answer and brief which it will file in the District of Columbia court following the filing of a brief by the attorneys for Certain-teed in that proceeding in support of the petition which it has there filed, all of which has been scheduled by the District of Columbia court to the end of permitting it to consider this fall the issues raised by said Certain-teed's petition.

4. At the said June 9, 1953 prehearing conference before the District of Columbia court, representatives from the Department of Justice appeared on behalf of the United States of America, plaintiff in that cause, and stated that although the Department had been considering for a month or so the matters raised by the petitions filed in that suit, including the petition filed therein by Certain-teed, it had not as yet decided what its position should be, but that a statement of the Department's position would be filed with the court by June 30, 1953. On said last mentioned date there was filed in the

District of Columbia proceeding a "Petition of United States for Orders or Directions for the Construction, Carrying out or Enforcement of the Final Decree of May 15, 1951," wherein reference was made to this action against Certain-teed in the District Court for the Northern District of Iowa (Civil Action No. 568) and three other actions [fol. 1124] brought by this plaintiff against other defendants, and wherein the United States took the position that in so far as those actions based any claim for recovery on license agreements adjudged illegal, null and void by the District of Columbia court's final decree of May 15, 1951, such actions were barred by, and constituted an attempt to defeat, said decree. In its said petition the United States of America also referred to the alternate claims in said actions against Certain-teed and others, as aforesaid, whereby plaintiff was seeking to recover either the reasonable value for the use of certain of its patents, or due compensation for the infringement of them, and as to such alternative claims the Government expressly stated to the court that it was taking no position as to whether they were barred by that court's final decree of May 15, 1951, or as to whether that court should enter an order enjoining U. S. Gypsum from prosecuting them. Said petition contained a single prayer for specific relief wherein it asked the District of Columbia court to enjoin U. S. Gypsum from asserting any claim or maintaining any action based in whole or in part on any of the license agreements adjudged illegal, null and void by that court's final decree of May 15, 1951, or on any provision thereof. In other words, the Government has asked the District of Columbia court to so construe its decree of May 15, 1951, as to prohibit U. S. Gypsum from maintaining Counts I and II of plaintiff's complaint herein, but has refused to take any position as to the claims of Certain-teed in its said petition that plaintiff should not be permitted to recover for the actual use of its patents under any cause of action as stated in Counts III, IV and V of the complaint herein. A copy of the petition filed on behalf of the United States, as aforesaid, is attached hereto as Exhibit A.

5. Plaintiff's position before this court is the same as the position taken by it before the District of Columbia

court at the June 9, 1953 prehearing conference in that it represents unto this court that the District of Columbia court does not have jurisdiction to determine the issues presented to it by the petition filed in that court by Certain-teed, and it believes that upon the presentation of the points of law the District of Columbia court will so conclude. In the event that said court should determine that it does not have jurisdiction to consider the matters raised by said Certain-teed petition, then the parties hereto would be free to proceed promptly to the trial of the case before this court. On the other hand, plaintiff does not desire to challenge the right of the District of Columbia court to [fol. 1125] determine in the first instance the question of its jurisdiction and the construction of its own decree which was entered on May 15, 1951, long prior to the institution of this suit in Civil Action No. 568.

6. Furthermore, in view of the position which the Government has now taken with respect to the prosecution of Counts I and II of the complaint filed herein, plaintiff U. S. Gypsum feels compelled in the first instance to clear with the District of Columbia court any question as to whether or not the action which it has taken in including Counts I and II of the complaint herein is considered to have been barred in any way by, or to constitute an attempt to defeat, that court's decree of May 15, 1951.

7. For the reasons hereinbefore set forth plaintiff, with the permission of this court, has no objection to stipulating with the defendant that proceedings in this court may be temporarily continued until the District of Columbia court has determined such jurisdictional questions and such other questions with respect to its said decree of May 15, 1951, as it may deem appropriate.

Respectfully submitted, Cranston Spray, Robert C. Keck, MacLeish, Spray, Price & Underwood, 134 South LaSalle Street, Chicago 3, Illinois. Arthur A. Olson, Thiess, Olson, Mecklenburger, vonHolst and Coltman, 77 West Washington Street, Chicago 2, Illinois. Bert B. Burnquist, Burnquist, Helsell & Burnquist, State Bank Building, Fort Dodge, Iowa, Attorneys for the Plaintiff.

[fol. 1126] EXHIBIT "A" TO PLAINTIFF'S STATEMENT

Civil Action No. 8017

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

UNITED STATES OF AMERICA, Plaintiff

v.

UNITED STATES GYPSUM COMPANY, ET AL., Defendants

Petition of United States of America

Edward Knuff, Special Assistant to the Attorney General. Vincent A. Gorman, Lawrence Gochberg, Trial Attorneys.

Stanley N. Barnes, Assistant Attorney General. Edwin H. Pewett, Chief, Judgments and Judgment Enforcement Section.

Filed June 30, 1953.

[fol. 1127] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

Civil Action No. 8017

UNITED STATES OF AMERICA, Plaintiff

v.

UNITED STATES GYPSUM COMPANY; NATIONAL GYPSUM COMPANY; Certain-teed Products Corporation; The Celotex Corporation; Ebsary Gypsum Company, Inc.; Newark Plaster Company; Samuel M. Gloyd, Doing Business Under the Name of Texas Cement Plaster Company; Sewell L. Avery; Oliver M. Knode; Melvin H. Baker, Frederick G. Ebsary; and Frederick Tomkins, Defendants

Petition of United States for Orders or Directions for the Construction, Carrying Out or Enforcement of the Final Decree of May 15, 1951

Comes now the United States of America and respectfully shows as follows:

1. Petitioner, United States, is the plaintiff in the above-entitled action. United States Gypsum Company (USG), National Gypsum Company (National), Certain-teed Products Corporation (Certain-teed), Ebsary Gypsum Company, Inc. (Ebsary), and Newark Plaster Company (Newark) are all defendants in the above-entitled action.

2. On May 15, 1951, this Court entered its final decree in the above-entitled action. Article IV of said decree "adjudged unlawful under the anti-trust laws of the United States and illegal, null and void" each of the license agreements listed in Article II of the decree. By Article X of the decree, this Court retained jurisdiction of the cause and of the parties "for the purpose of enabling any of the parties * * * to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith."

3. In the early part of 1953, USG brought the following actions seeking to recover, under certain of the license agreements which this Court had adjudged unlawful under the antitrust laws and illegal, null and void, the royalties specified in such license agreements:

a. An action against National in the District Court for the Northern District of Iowa (Civil Action No. 564) seeking royalties for the period February 1, 1948, to May 15, 1951.

b. An action against Newark in the District Court for the District of New Jersey (Civil Action No. 93-53) seeking royalties for the period February 1, 1948, to May 15, 1951.

c. An action against Ebsary in the District Court for the Southern District of New York (Civil Action No. 83-83) seeking royalties for the period March 1, 1948, to May 15, 1951.

d. An action against Certain-teed in the District Court for the Northern District of Iowa (Civil Action No. 568) seeking royalties for the period April 1, 1948, to May 15, 1948.

4. In the aforesaid actions USG alleged, as alternative claims against the respective defendants therein, that USG is entitled to recover either the reasonable value of the use of certain of its patents or due compensation for the infringement of these same patents. The patents on which the alternative claims are based, except patent No. 2,044,401, were licensed to the said defendants under the agreements which this Court had adjudged illegal, null and void.

[fol. 1128] 5. Your petitioner alleges that insofar as the aforesaid actions by USG base any claim for recovery on any of the license agreements adjudged illegal, null and void by this Court's final decree of May 15, 1951, such actions are barred by, and constitute an attempt to defeat, said decree.

6. With respect to the alternative claims set forth in the aforesaid actions, your petitioner takes no position as to whether such alternative claims are barred by this Court's final decree of May 15, 1951, or as to whether this Court should enter an order enjoining USG from prosecuting such alternative claims.

Wherefore, your petitioner prays:

I. That this Court enjoin USG from asserting any claim, and from instituting, threatening to institute, or maintaining any action, based, in whole or in part on any of the license agreements adjudged illegal, null and void by the final decree of this Court entered on May 15, 1951, or on any provision thereof.

II. That your petitioner have such other and further relief as to this Court may seem just and proper.

Edward Knuff, Special Assistant to the Attorney General. Vincent A. Gorman, Lawrence Gochberg, Trial Attorneys.

Stanley N. Barnes, Assistant Attorney General. Edwin H. Pewett, Chief, Judgments and Judgment Enforcement Section.

June 30, 1953.

[fol. 1129] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF IOWA, CENTRAL DIVISION

Civil Action No. 564

UNITED STATES GYPSUM COMPANY, an Illinois Corporation, Plaintiff,

against

NATIONAL GYPSUM COMPANY, a Delaware Corporation, Defendant

PLAINTIFF'S STATEMENT WITH RESPECT TO DEFENDANT'S MOTION FOR STAY—Copy Filed in United States District Court for the District of Columbia—July 13, 1953

Now comes plaintiff, United States Gypsum Company (hereinafter sometimes referred to as U. S. Gypsum), by its attorneys, and respectfully submits the following statement as to the motion for stay hereinbefore filed in this cause by

defendant, National Gypsum Company (hereinafter sometimes referred to as National), for an order staying all further proceedings herein until determination of the issues raised by the petition filed by National in the United States District Court for the District of Columbia on March 25, 1953:

I

General Objection to Defendant's Motion for Stay and Answer to Grounds Advanced by Defendant in Support Thereof

Plaintiff objects generally to the effort by defendant National to avoid a determintaion by this court of the issues herein by the filing of its petition in the District of Columbia court on March 25, 1953 and by the filing of its motion for stay of these proceedings, and answering the grounds advanced by defendant National in support of its said motion for stay, plaintiff U. S. Gypsum respectfully shows unto the court as follows:

1. Answering paragraphs 1 and 2 contained in defendant's motion, plaintiff admits that if the issues raised by National's petition in the District of Columbia court are determined in its favor, the plaintiff in this action might be enjoined from prosecuting this suit, or one or more counts of the complaint herein, but plaintiff denies that National's [fol. 1130] said petition is meritorious, denies that there is a substantial probability that the issues therein raised will be decided favorably to National, and denies that the disposition of National's petition in the District of Columbia court will avoid consideration by this court of issues formed in this cause.

2. Plaintiff admits the averments contained in paragraph 3 of National's motion for stay, except that it avers that a stay of the action as prayed for may or may not avoid simultaneous consideration by this court and by the District of Columbia court of identical questions of law and of fact as averred in said paragraph 3. Further answering, plaintiff avers that the simultaneous consideration of identical questions by two courts and the dissipation of the efforts of counsel, which defendant now purportedly seeks to avoid,

are the direct result of defendant's action in filing its petition in the District of Columbia court following the filing of plaintiff's suit against it in this court, and therefore are not available to defendant as grounds for the granting of its motion for stay.

3. Plaintiff denies each and every averment contained in paragraph 4 of defendant's motion for stay, except that plaintiff admits that there is a possibility, but not a probability, of conflicting orders being entered by this court and the District of Columbia court in the two proceedings. Further answering, this defendant avers that every reasonable effort should be made to avoid if possible the entering of such conflicting orders.

4. Answering paragraph 5 of defendant's motion for stay, plaintiff admits that this court has before it in this case only two of the parties to the final decree of the District Court of the District of Columbia, but denies each and every other averment contained in said paragraph.

5. Plaintiff admits the averments contained in paragraph 6 of defendant's motion for stay.

6. Plaintiff denies each and every averment contained in paragraphs 7, 8 and 9 of defendant's motion for stay.

7. Plaintiff admits the averments contained in paragraph 10 of defendant's motion for stay.

8. Plaintiff denies the averments contained in paragraph 11 of defendant's motion for stay.

[fol. 1131]

II

Plaintiff's Suggestion as to Defendant's Motion for Stay in View of the Pending Proceedings Before the District of Columbia Court

1. Plaintiff filed its suit against defendant National in this court in good faith and with the intention and expectation of prosecuting the case diligently. However, plaintiff cannot be unmindful of the fact that, by reason of National's petition in the District of Columbia court, two federal district courts have been called upon to determine like issues, and that a reasonable procedure must be adopted to permit an orderly disposition of the matter in each court.

2. On June 9, 1953, a prehearing conference was called in

Washington, D. C. by the three-judge statutory court sitting as the District Court for the District of Columbia, at which session parties to the prior action in that court, including the plaintiff and the defendant in this case, were represented by their respective attorneys. In said prehearing before the District of Columbia court, the Honorable Harold M. Stephens, presiding Justice, expressed confidence that neither the courts nor the parties to the respective actions would indulge in any unseemly race for jurisdiction over the questions raised, and expressly requested counsel for U. S. Gypsum not to take action in this court which would have the effect of bringing this cause to judgment before the District of Columbia court might have the opportunity of determining questions raised by the petitions filed in that cause. In answer to this request counsel for U. S. Gypsum, out of deference to this court, explained that he fully understood and appreciated the position of the District of Columbia court in this respect but indicated that he could not so stipulate without advising this court of the situation which had arisen and asking its permission so to do.

3. At the June 9, 1953 prehearing conference held before the District of Columbia court as aforesaid, plaintiff U. S. Gypsum took the position that that court did not have jurisdiction to determine the issues presented to it by the petition filed in said court by National, stating in substance:

> (a) that there is no provision in the decree entered in the District of Columbia court on May 15, 1951, en- [fol. 1132] joining U. S. Gypsum from seeking to collect or to recover compensation for the actual use of its patents prior to the entry of said decree or enjoining National from paying for the actual use it may have made of U. S. Gypsum's patents prior to the entry of said decree;
>
> (b) that such an issue was not before the District of Columbia court in the proceeding which culminated in the decree of May 15, 1951, as will appear from an examination of the pleadings in that case, the evidence submitted, the findings and orders of the trial court, and the opinions of the trial court (67 F. Supp. 397) and the Supreme Court (333 U. S. 364; 340 U. S. 76);
>
> (c) that such an issue could not have been deter-

mined by the District of Columbia court at the time it entered its decree of May 15, 1951, under the issues raised by the pleadings then filed in said cause;

(d) that National's petition in the District of Columbia court is not within the reservation of jurisdiction contained in Article X of said decree of May 15, 1951, but on the contrary seeks to enlarge the injunctive provisions of said decree to cover matters not included therein, and which could not have been included at the time the decree was entered on the then state of the record;

(e) that National's petition in the District of Columbia court seeks to obtain an adjudication on matters not reserved by said special statutory court in its said decree;

(f) that National's petition in the District of Columbia court represents an effort on National's part to take the jurisdiction away from this court, a federal court of competent jurisdiction, which has already had the issues presented to it and which is ready, willing and able to bring the case on for trial and a prompt determination of those issues;

all as appears from the stenographic transcript of said proceedings, a copy of which plaintiff will produce at the hearing before this court on defendant's motion for stay. Plaintiff intends to present these objections to the jurisdiction of the District of Columbia court, together with the authorities in support of its position, in the answer and brief which it will file in the District of Columbia court following the filing of a brief by the attorneys for National [fol. 1133] in that proceeding in support of the petition which it has there filed, all of which has been scheduled by the District of Columbia court to the end of permitting it to consider this fall the issues raised by said National petition.

4. At the said June 9, 1953 prehearing conference before the District of Columbia court, representatives from the Department of Justice appeared on behalf of the United States of America, plaintiff in that cause, and stated that although the Department had been considering for a month or so the matters raised by the petitions filed by National and others in that suit, it had not as yet decided what its

position should be, but that a statement of the Department's position would be filed with the court by June 30, 1953. On said last mentioned date there was filed in the District of Columbia proceeding a "Petition of United States for Orders or Directions for the Construction, Carrying out or Enforcement of the Final Decree of May 15, 1951," wherein reference was made to this action against National in the District Court for the Northern District of Iowa (Civil Action No. 564) and three other actions brought by this plaintiff against other defendants, and wherein the United States took the position that in so far as those actions based any claim for recovery on license agreements adjudged illegal, null and void by the District of Columbia court's final decree of May 15, 1951, such actions were barred by, and constituted an attempt to defeat said decree. In its said petition the United States of America also referred to the alternate claims in said actions against National and others, as aforesaid, whereby plaintiff was seeking to recover either the reasonable value for the use of certain of its patents, or due compensation for the infringement of them, and as to such alternative claims the Government expressly stated to the court that it was taking no position as to whether they were barred by that court's final decree of May 15, 1951, or as to whether that court should enter an order enjoining U. S. Gypsum from prosecuting them. Said petition contained a single prayer for specific relief wherein it asked the District of Columbia court to enjoin U. S. Gypsum from asserting any claim or maintaining any action based in whole or in part on any of the license agreements adjudged illegal, null and void by that court's final decree of May 15, 1951, or on any provision thereof. In other words, the Government has asked the District of Columbia court to so construe its decree of May 15, 1951, as [fol. 1134] to prohibit U. S. Gypsum from maintaining Counts I and II, as amended, of plaintiff's complaint herein, but has refused to take any position as to the claims of National in its said petition that plaintiff should not be permitted to recover for the actual use of its patents under any cause of action as stated in Count III, as amended, or in Counts IV or V of the complaint herein. A copy of the petition filed on behalf of the United States, as aforesaid, is attached hereto as Exhibit A.

5. Plaintiff's position before this court is the same as the position taken by it before the District of Columbia court at the June 9, 1953 prehearing conference in that it represents unto this court that the District of Columbia court does not have jurisdiction to determine the issues presented to it by the petition filed in that court by National, and it believes that upon the presentation of the points of law the District of Columbia court will so conclude. In the event that said court should determine that it does not have jurisdiction to consider the matters raised by said National petition, then the parties hereto would be free to proceed promptly to the trial of the case before this court. On the other hand, plaintiff does not desire to challenge the right of the District of Columbia court to determine in the first instance the question of its jurisdiction and the construction of its own decree which was entered on May 15, 1951, long prior to the institution of this suit in Civil Action No. 564.

6. Furthermore, in view of the position which the Government has now taken with respect to the prosecution of Counts I and II of the complaint filed herein, plaintiff U. S. Gypsum feels compelled in the first instance to clear with the District of Columbia court any question as to whether or not the action which it has taken in including Counts I and II of the complaint herein is considered to have been barred in any way by, or to constitute an attempt to defeat, that court's decree of May 15, 1951.

7. For the reasons hereinbefore set forth plaintiff, with the permission of this court, has no objection to stipulating with the defendant that proceedings in this court may be temporarily continued until the District of Columbia court [fol. 1135] has determined such jurisdictional questions and such other questions with respect to its said decree of May 15, 1951, as it may deem appropriate.

Respectfully submitted, Cranston Spray, Robert C. Keck, MacLeish, Spray, Price & Underwood, 134 South LaSalle Street, Chicago 3, Illinois; Arthur A. Olson, Thiess, Olson, Mecklenburger, vonHolst and Coltman, 77 West Washington Street, Chicago 2, Illinois; Bert B. Burnquist, Burnquist, Helsell & Burnquist, State Bank Building, Fort Dodge, Iowa, Attorneys for the Plaintiff.

[fols. 1136-1138] EXHIBIT "A" TO PLAINTIFF'S STATEMENT OMITTED. PRINTED SIDE PAGE 1126 ANTE

[fol. 1139] [File endorsement omitted]

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF IOWA, CENTRAL DIVISION

No. 564 Civil

UNITED STATES GYPSUM COMPANY, an Illinois Corporation, Plaintiff

vs.

NATIONAL GYPSUM COMPANY, a Delaware Corporation, Defendant

ORDER GRANTING MOTION FOR STAY OF PROCEEDINGS—(Copy Filed in United States District Court for the District of Columbia—July 20, 1953)

On the 13th day of July, 1953, at 10:30 a.m. at the Federal Court House at Fort Dodge, Iowa, there came on for hearing the motion of the defendant for a stay of proceedings herein pending the determination of certain issues in an action pending in the United States District Court for the District of Columbia, entitled United States of America, plaintiff vs. United States Gypsum Company et al. defendants, being Civil Action No. 8017.

Cranston Spray, attorney, Chicago, Illinois, Frank H. Helsell and William S. Burnquist, attorneys, Fort Dodge, Iowa, appeared for plaintiff.

E. Marshall Thomas, attorney, Dubuque, Iowa, Elmer E. Finck, attorney, Buffalo, New York, and Seymour D. Lewis, attorney, New York City, New York, appeared for defendant.

At said hearing counsel for the parties were heard, the said motion submitted to the Court, and by it taken under advisement.

And Now to Wit, on this 13th day of July, 1953, the Court being fully advised in the premises,

It Is Hereby Ordered that said Motion for Stay of Proceedings be granted as prayed, subject to the right of the plaintiff to move to vacate the Stay in the event that it should be made to appear that the proceedings in the case pending in the United States District Court for the District of Columbia are not being diligently prosecuted.

Done and Ordered at Fort Dodge, Iowa, this 13th day of [fol. 1140] July, 1953.

(S.) Henry N. Graven, United States District Judge.

The above is a true copy. Attest: Lee McNeely, Clerk, By (S.) Jane Sullivan, Deputy.

[fol. 1141]

Law Offices
KRIEGER & JORGENSEN
Suite 514 Wyatt Building
777 Fourteenth Street, N. W.
Washington 5, D. C.

Seymour Krieger
Norman E. Jorgensen

Telephone
Executive 3-1635
July 20, 1953

George A. Watts, Deputy Clerk
United States District Court for the
District of Columbia
Washington 1, D. C.

Re: *United States v. U. S. Gypsum Co., et al.*, Civil Action No. 8017

Dear Mr. Watts:

I am writing this letter for filing with the Court in order to advise the Court of the action taken by the District Court for the Northern District of Iowa on the Motion for Stay of National Gypsum Company in the case of United States Gypsum Company v. National Gypsum Company, Civil Action No. 564, in the United States District Court for the Northern District of Iowa, Central Division.

This motion was heard on July 13, 1953 and I am enclos-

ing herewith a copy of the Order entered by Judge Henry N. Graven on that date.

On June 25, 1953 I filed with the Court copies of the Motion for Stay and also advised the Court that the hearing on that Stay was scheduled for July 13, 1953.

I am filing herewith five copies of this letter and five copies of the enclosed Order; and I am also sending a copy of this letter and Order to counsel for all parties who entered an appearance at the pre-hearing conference on June 9, 1953. I am indicating at the bottom of this letter the names of the persons to whom copies of this letter have been mailed.

Very truly yours, Seymour Krieger, Attorney for National Gypsum Company.

Attachs.

[fol. 1142] George A. Watts July 20, 1953

cc: Edward Knuff, Esq., Special Assistant to the Attorney General, United States Department of Justice, Washington 25, D. C., Attorney for the United States of America.

C. Roger Nelson, Esq., Barr Building, Washington 6, D. C., Attorney for Certain-Teed Products Corporation.

Hugh Lynch, Jr., Esq., 1625 K Street, N.W., Washington 6, D. C., Attorney for United States Gypsum Company.

Albert E. Hallett, Esq., Dallstream, Schiff, Stern & Hardin, 231 South La Salle Street, Chicago 4, Illinois, Attorney for Celotex Corporation.

Joseph S. Rippey, Esq., 612 Powers Building, Rochester 14, New York, Attorney for Ebsary Gypsum Company, Inc.

Benjamin P. DeWitt, Esq., DeWitt, Pepper & Howell, 120 Broadway, New York 5, New York, Attorney for Newark Plaster Company.

[fol. 1143] IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF IOWA, CENTRAL DIVISION

Civil Action No. 564

UNITED STATES GYPSUM COMPANY, an Illinois Corporation, Plaintiff

vs.

NATIONAL GYPSUM COMPANY, a Delaware Corporation, Defendant

AMENDMENT TO COMPLAINT—(Copy filed in United States District Court for the District of Columbia—July 28, 1953)

Plaintiff, United States Gypsum Company, hereinafter referred to as U. S. Gypsum, having heretofore, on January 28, 1953, filed its Complaint herein, Civil Action No. 564, against defendant, National Gypsum Company, hereinafter referred to as National, and National not having heretofore filed a responsive pleading, U. S. Gypsum now amends, pursuant to Rule 15(a) of the Federal Rules of Civil Procedure, its Complaint as follows:

I. *Amend Count I of the Complaint by adding five additional paragraphs immediately following paragraph 9 on page 4 of the Complaint, such additional paragraphs to read as follows:*

10. On or about the 30th day of December, 1935, National, as the resulting or surviving corporation of a merger effected under the laws of the State of Delaware on or about that date between National and Universal Gypsum & Lime Co., a Delaware corporation (hereinafter referred to as Universal) acquired, among other assets, certain gypsum [fol. 1144] board plants of Universal, together with that certain license agreement entered into on November 5, 1929, between U. S. Gypsum, as licensor, and Universal and its receivers, as the licensee, under which the licensee therein was licensed to manufacture and sell gypsum board embodying or made by the use of the inventions set forth and

claimed in the same letters patent and applications for letters patent as those described in said license agreement of October 17, 1929, between U. S. Gypsum and National, including letters patent thereafter granted upon any of said applications, for the full term of said letters patent. Said license agreement of November 5, 1929, included said Application Serial No. 733,197 upon which Letters Patent of the United States No. 2,017,022 was duly and legally granted to U. S. Gypsum as aforesaid, which thereupon became letters patent under said Universal license of November 5, 1929. During the period of the events mentioned in this Count, from February 1, 1948, to May 15, 1951, and for some time prior thereto, the provisions of the licenses under said letters patent and applications for letters patent contained in said National agreement of October 17, 1929, and said Universal agreement of November 5, 1929, including the provision for payment by licensee of a license fee or royalty of one per cent (1%) of licensee's selling price of gypsum board manufactured and sold by it, were identical.

11. A true copy of said Universal license agreement of November 5, 1929, is attached hereto as Exhibit B to this Count and made a part hereof.

12. During the period when both of said licenses provided for payment by the licensee of a license fee or royalty of [fol. 1145] one per cent (1%) of licensee's selling price of gypsum board manufactured and sold by it, National paid said license fee or royalty of one per cent (1%) of its selling price of gypsum board manufactured and sold by it until February 1, 1948, and plaintiff is informed and believes, and on such information and belief states the fact to be, that National allocated a part of such license fees or royalties to the said National license of October 17, 1929, and a part thereof to said Universal license of November 5, 1929, and that the proportion so allocated by National to said Universal license of November 5, 1929, was the amount of the license fees or royalties due on such gypsum board manufactured in the plants acquired by National from Universal in the merger of December 30, 1935, as aforesaid.

13. National, during the period commencing on February 1, 1948, and ending on May 14, 1951, manufactured in said gypsum plants acquired by it from Universal as aforesaid,

great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022, and sold the same for an amount aggregating, to-wit: Seventy Million Dollars ($70,000,000), for which National, upon the basis of such allocation of license fees or royalties, has become indebted to U. S. Gypsum for license fees or royalties aggregating Seven Hundred Thousand Dollars ($700,000), which said license fees and royalties said National has wholly failed and refused to pay in whole or in part although often requested so to do.

14. Plaintiff in any event claims only a single license fee or royalty of one per cent (1%) of National's selling price [fol. 1146] of gypsum board embodying or made by the use of Letters Patent No. 2,017,022, manufactured and sold by National during said period from February 1, 1948, to May 15, 1951.

II. *Amend Count II of the Complaint by adding three additional paragraphs immediately following paragraph 3 on page 5 of the Complaint, such additional paragraphs to read as follows:*

4. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in said additional paragraphs 10, 11 and 12 as set forth in section I of this amendment to the Complaint, with like effect as if herein fully set forth.

5. On or about February 1, 1948, National discontinued the payment of said license fee of one per cent (1%) of its selling price of gypsum board manufactured and sold by it but nevertheless continued to manufacture in its several plaints, including said plants acquired from Universal, gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022 as aforesaid and to sell the same. U. S. Gypsum and National, each having determined to discontinue compliance with the provisions of said license agreement of November 5, 1929, agreed, and it was so understood between them, that National would account for and pay to U. S. Gypsum the said license fee or royalty of one per cent (1%) of National's selling price for gypsum board actually manu-

factured by it in its several plants, including said plants acquired from Universal, and embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022. It was further understood and [fol. 1147] agreed that no further performance would be required by either party under said license agreement of November 5, 1929, except that National could continue to use said patents and would account for and pay to U. S. Gypsum all such license fees or royalties for the actual use thereof as aforesaid.

6. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in said additional paragraphs 13 and 14 as set forth in section I of this amendment to the Complaint, with like effect as if herein fully set forth.

III. *Amend Count III of the Complaint by adding two additional paragraphs immediately following paragraph 5 on page 7 of the Complaint, such additional paragraphs to read as follows:*

5a. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in said additional paragraphs 10 and 12 as set forth in section I of this amendment to the Complaint, with like effect as if herein fully set forth.

5b. At the same time National repudiated its said license agreement of October 17, 1929, to-wit, on or about the first day of February, 1948, it repudiated its said license agreement of November 5, 1929, and discontinued the payment of all license fees or royalties payable or to be paid thereunder and refused to be bound by the provisions thereof. U. S. Gypsum acquiesced in such repudiation and thereafter each of the parties thereto treated the said license agreement as rescinded and no action was subsequently taken by either of them to comply with or to enforce any of the provisions thereof or to require the other to perform the same.

[fol. 1148] IV. *Amend paragraph (a) of the Prayer, appearing on the last page of the Complaint, to read as follows:*

(a) If the court finds that defendant National is indebted to plaintiff U. S. Gypsum, as alleged in either Count I

hereof as amended by section I of this Amendment, Count II hereof as amended by section II of this Amendment, Count III hereof as amended by section III of this Amendment, or Count IV hereof, that judgment be entered against defendant for the sum of One Million Six Hundred Thousand Dollars ($1,600,000), together with interest and costs of this suit;

Cranston Spray, Robert C. Keck, MacLeish, Spray, Price & Underwood, 134 South LaSalle Street, Chicago 3, Illinois, Arthur A. Olson, Thiess, Olson Mecklenburger, vonHolst & Coltman, 77 West Washington Street, Chicago 2, Illinois, Bert B. Burnquist, Burnquist, Helsell & Burnquist, State Bank Building, Fort Dodge, Iowa, Attorneys for the Plaintiff.

[fol. 1149] [File endorsement omitted]

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF IOWA, CENTRAL DIVISION

No. 568 Civil

UNITED STATES GYPSUM COMPANY, An Illinois Corporation, Plaintiff

CERTAIN-TEED PRODUCTS CORPORATION, A Maryland Corporation, Defendant

ORDER GRANTING MOTION FOR STAY OF PROCEEDINGS (Copy filed in United States District Court for the District of Columbia, July 29, 1953)

On the 13th day of July, 1953, at 10:30 a.m. at the Federal Court House at Fort Dodge, Iowa, there came on for hearing the motion of the defendant for a stay of proceedings herein pending the determination of certain issues in an action pending in the United States District Court for the District of Columbia, entitled United States of America, plaintiff vs. United States Gypsum Company, et al., defendants, being Civil Action No. 8017.

Cranston Spray, attorney, Chicago, Illinois, Frank H. Helsell and William S. Burnquist, attorneys, Fort Dodge, Iowa, appeared for the plaintiff.

Norman A. Miller, attorney, Chicago, Illinois, and Dwight G. Rider, attorney, Fort Dodge, Iowa, appeared for defendant.

At said hearing counsel for the parties were heard, the said motion submitted to the court, and by it taken under advisement.

And, Now to Wit, on this 13th day of July, 1953, the Court being fully advised in the premises,

It Is Hereby Ordered that said Motion for Stay of Proceedings be granted as prayed, subject to the right of the plaintiff to move to vacate the Stay in the event that it [fol. 1150] should be made to appear that the proceedings in the case pending in the United States District Court for the District of Columbia are not being diligently prosecuted.

Done and Ordered at Fort Dodge, Iowa, this 13th day of July, 1953.

(S.) Henry N. Graven, United States District Judge.

The above is a true copy.

Attest: Lee McNeely, Clerk, by s/s Jane Sullivan, Deputy.

[fol. 1151] In the United States District Court for the District of Columbia

Civil Action No. 8017

[Title omitted]

Brief of Certain-teed Products Corporation in Support of Its Petition for Enforcement of Compliance With Final Decree of May 15, 1951—Filed July 31, 1953

• • • • • • •

[fol. 1152] It is clear that the declaration contained in Article IV that the license agreements were illegal, null and void is sufficient basis for a specific injunction against the

enforcement of those agreements. To argue that because the decree failed to contain an injunction preventing the enforcement of such illegal null and void agreements, is an absurdity and should not be countenanced by this Court. The absence of an injunction against the enforcement of the illegal, null and void agreements cannot stand in the way of specific injunctive implementation by this Court now.

• • • • • • •

[fol. 1153] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

On Petition of National Gypsum Company for Orders, Modifications or Directions for the Enforcement, Construction or Carrying Out of the Final Decree of May 15, 1951

BRIEF FOR THE NATIONAL GYPSUM COMPANY—Filed July 31, 1953

• • • • • • •

[fol. 1154] In any event, it is clear that the declaration contained in Article IV, that these agreements are "illegal, null and void," is sufficient basis for a specific injunction now against enforcement of the agreements. The lack of a prior injunction against enforcement of these agreements might conceivably stand in the way of a contempt citation against USG; it certainly does not stand in the way of specific injunctive implementation of that declaration.

• • • • • • •

[fol. 1155] For all of the reasons heretofore stated, it is submitted that this Court, if it denies the relief prayed for under Claim I of National's Petition, should determine whether USG, as a matter of law, is foreclosed from showing that it has purged its misused patents; and if that issue is also determined adversely to National, this Court

[fol. 1156] should then proceed to hear evidence on the question of whether USG took effective steps to accomplish a purge of its misused patents prior to May 15, 1951.

• • • • • • •

[fol. 1157] In any event, there is real question whether, in a case such as this, in which a broadening of the decree is sought, changed circumstances must, in fact, be shown. The rule requiring changed circumstances announced in the *Swift* case is plainly applicable where a defendant subject to an anti-trust decree seeks relief from the provisions thereof. But the Supreme Court has never applied that rule to a case like this in which a modification of the decree is sought in order to effectuate its basic purpose by expanding its scope. Instead, the court has applied the test announced in the *Chrysler Corporation* case—"whether the change served to effectuate or to thwart the basic purpose of the original * * * decree."

• • • • • • •

[fol. 1157A] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

Civil Action No. 8017

UNITED STATES OF AMERICA, Plaintiff

vs.

UNITED STATES GYPSUM COMPANY; NATIONAL GYPSUM COMPANY; Certain-teed Products Corporation; the Celotex Corporation; Ebsary Gypsum Company, Inc.; Newark Plaster Company; Samuel M. Gloyd, Doing Business Under the Name of Texas Cement Plaster Company; Sewell L. Avery; Oliver M. Knode; Melvin H. Baker; Frederick G. Ebsary; and Frederick Tomkins, Defendants

ANSWERS OF UNITED STATES GYPSUM COMPANY TO THE PETITION OF NATIONAL GYPSUM COMPANY FILED HEREIN ON MARCH 25, 1953, TO THE PETITION OF CERTAIN-TEED PRODUCTS CORPORATION FILED HEREIN ON APRIL 22, 1953, TO THE PETITION OF NEWARK PLASTER COMPANY FILED HEREIN ON MAY 15, 1953, TO THE PETITION BY EBSARY GYPSUM COMPANY, INC. FILED HEREIN ON JUNE 3, 1953, AND TO THE PETITION OF THE UNITED STATES OF AMERICA FILED HEREIN ON JUNE 30, 1953—Filed September 9, 1953

[fol. 1158] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

ANSWER OF UNITED STATES GYPSUM COMPANY TO PETITION OF NATIONAL GYPSUM COMPANY FILED HEREIN ON MARCH 25, 1953—Filed September 9, 1953

Comes now United States Gypsum Company, hereinafter sometimes referred to as U. S. Gypsum or this defendant, by its attorneys, Bruce Bromley, Cranston Spray, Robert C. Keck, and Hugh Lynch, Jr., and for answer to the petition heretofore filed in this cause on March 25, 1953 by

National Gypsum Company, hereinafter sometimes referred to as National or the petitioner, avers as follows:

First Defense

1. For a first defense, U. S. Gypsum avers that this Court has no jurisdiction of the controversy involved under either of the claims of said petition, nor of the subject matter of either of said claims, for the following reasons:

[fol. 1159] (a) This Court made a limited reservation of jurisdiction in Article X of its decree of May 15, 1951, jurisdiction of the cause and of the parties being retained solely for the purpose of enabling any of the parties to this decree, or any other party hereafter becoming bound thereby in whole or in part, to apply to the Court for "such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or the carrying out of this decree, and (2) for the enforcement of compliance therewith."

(b) The decree of May 15, 1951, did not contain any provision enjoining defendant U. S. Gypsum from suing for the use of its patents for any period prior to the date of the decree. In substance the said decree provided by Article III that the defendant companies had acted in concert to fix, maintain and control the prices of gypsum board in violation of the Sherman Act; by Article IV that each of the license agreements is adjudged unlawful under the antitrust laws and illegal, null and void; and by Article V that each of the defendant companies is enjoined from entering into or performing any agreement among the defendant companies or other manufacturers to fix, maintain or stabilize by patent license agreements or other acts or course of action, the prices or terms or conditions of sale of gypsum products and from engaging in, pursuant to any such agreement, any of the acts or practices specifically listed in said Article V. Articles VI, VII, VIII and IX provided that U. S. Gypsum shall grant licenses to others upon reasonable royalties without any price-fixing provisions; that the decree shall have no effect upon operations or activities permitted

by act of Congress; that representatives of the Department of Justice shall have access to the books and records of defendant companies for the purpose of securing compliance with the decree; and that judgment is entered against defendants for costs, respectively.

(c) The petition hereinbefore filed in this cause by National, as aforesaid, is not a petition for an order, [fol. 1160] etc. herein (1) for the construction or carrying out of the decree, or (2) for the enforcement of compliance therewith, but on the contrary is an attempt to insert new provisions in the decree and to obtain a "broadening of the decree" and an adjudication by this Court on a question which was not before this Court at the time it entered either its decree of November 7, 1949 or its decree of May 15, 1951.

(d) This Court does not have jurisdiction, inherent or otherwise, to modify the decree of May 15, 1951, to enlarge its injunctive provisions to cover matters not before the Court at the time the decree was entered, or to change the injunctive provisions from those which were designed only to enjoin agreements or practices fixing, maintaining or stabilizing the prices, terms or conditions of sale of gypsum products by license agreements or other course of action.

This Court being without jurisdiction to entertain it, said petition should be dismissed, or in the alternative should be stricken from the files, and U. S. Gypsum accordingly moves that it be so dismissed or stricken.

Second Defense

2. For a second defense, U. S. Gypsum avers that this Court ought not to take jurisdiction of the matters presented by said petition, for the reason that another court of concurrent jurisdiction, *i.e.*, the United States District Court for the Northern District of Iowa, has already assumed jurisdiction thereof by reason of the suit heretofore filed in said United States District Court for the Northern District of Iowa, on the 28th day of January, 1953, entitled *United States Gypsum Company* v. *National Gypsum Company,* Civil Action No. 564.

[fol. 1161] Third Defense

3. For a third defense, and answering each claim and paragraph of said National petition, U. S. Gypsum avers with respect to each claim and paragraph as follows:

4. U. S. Gypsum admits the averments contained in the first, second, third and fourth unnumbered paragraphs at the bottom of page 1 and the top of page 2 of said petition, except that this defendant (a) denies the averment that except for paragraphs 9 to 18 the allegations in Claim I set forth facts which are undisputed, (b) denies the averment that paragraphs 9 to 18 relate to claims of U. S. Gypsum made since the entry of the final decree, (c) avers that the claims of U. S. Gypsum referred to in paragraphs 10 through 15 are for the payment for the actual use of a certain patent of U. S. Gypsum by defendants National and Certain-teed during a period prior to May 15, 1951, and for the actual use of certain of U. S. Gypsum's patents by defendants Newark and Ebsary for periods both prior and subsequent to May 15, 1951, and (d) denies that the petition of National states any ground or cause for relief in either Claim I or Claim II.

Specific Answer to Averments of Claim I

5. U. S. Gypsum admits the averment contained in paragraph 1 of the petition, and admits that Article X of the final decree contains the language set forth in paragraph 2 of said petition, but denies that said petition is made, or could be made, pursuant to said Article X of the final decree.

6. This defendant admits the fact alleged in paragraph 3 of said petition, that on August 15, 1940, the United States of America filed its complaint herein against U. S. Gypsum, six other manufacturers of gypsum products, including the petitioner National, and certain individuals who were [fol. 1162] officers of the defendant companies, charging violation of the Sherman Act, but denies that the allegations regarding said complaint have been accurately or adequately set forth in said paragraph 3 and begs leave to refer to the complaint herein filed for a fuller and more complete statement of the allegations contained therein in

so far as they are pertinent to the matters set forth in said petition.

7. U. S. Gypsum admits the averments contained in paragraphs 4 and 5 of the petition and further answering begs leave to refer to the opinion of this Court of June 15, 1946, and to the findings of fact and conclusions of law filed on August 5, 1946, for a full and accurate statement of the facts alleged in said paragraph 5.

8. U. S. Gypsum denies each and every averment contained in paragraph 6 of said petition, except that it admits that on March 8, 1948, the Supreme Court of the United States reversed the order of this Court entered on August 5, 1946, dismissing the case, and rejected certain of the findings of fact and conclusions of law theretofore filed by this Court on August 5, 1946. Further answering, this defendant denies that the decision of the Supreme Court rendered in this cause on March 8, 1948 is accurately or adequately set forth in paragraph 6 of said petition, and begs leave to refer to the decision of the Supreme Court of March 8, 1948, in so far as the same may be pertinent to any of the matters raised by said petition.

9. U. S. Gypsum denies each and every averment contained in paragraph 7 of said petition, except as hereinafter expressly qualified or admitted. Further answering, this defendant admits that after remand of this action to the District Court, the Government moved for summary judgment, which the District Court, with Judge Stephens dissenting, granted, and that thereafter judgment was entered in conformity therewith on November 7, 1949; [fol. 1163] admits that the Government and the defendant U. S. Gypsum and its two officers who were individual defendants thereafter appealed to the Supreme Court, and that said judgment was stayed pending said U. S. Gypsum appeal. Further answering, U. S. Gypsum avers that its appeal challenged the propriety of the summary judgment procedure as used in this case and appealed from the granting of any judgment without affording the defendants the right to put in their evidence, and avers that the Government appealed on the ground that the decree of the District Court was inadequate, but U. S. Gypsum begs leave to refer to the appeal papers filed by it on its appeal,

and by the Government on its appeal, for an accurate and complete statement of the reasons for each appeal, and the errors assigned in respect thereto, in so far as such matters may be pertinent to any of the matters raised by said petition.

10. U. S. Gypsum, answering paragraph 8 of said petition, admits the averments to the effect that the appeal of U. S. Gypsum and its associated individual defendants was dismissed by the Supreme Court on May 29, 1950, as appears from 339 U. S. 959; admits the averment to the effect that on or about November 27, 1950, the Supreme Court on the Government's appeal again reversed the case and ordered this Court to modify its decree so as to broaden it in several respects, but denies that the averments with respect to said decree contained in said paragraph 8 accurately or adequately describe the basis of the Supreme Court's decision that this Court's prior decree was inadequate, and begs leave to refer to the decision itself for an accurate and complete statement of its provisions in so far as the same may be pertinent to any of the matters raised by said petition. Further answering the said paragraph 8, this defendant admits that this Court modified its prior decree of November 7, 1949, in accordance with the Supreme Court's opinion of November 27, 1950, but [fol. 1164] avers that the provisions of Article IV as set forth in the revised decree of May 15, 1951, were precisely the same as the provisions of Article IV of this Court's original decree of November 7, 1949, and that Articles III, IV and V of the May 15, 1951 decree taken together show that this Court as well as the Supreme Court were primarily concerned with concerted action in fixing, maintaining and stabilizing the prices, terms and conditions of sale of gypsum products by patent license agreements or other course of action. Further answering said paragraph 8, U. S. Gypsum recognizes that petitioner, National, has adopted the terms "unlawful license" and "mis-used patent", respectively, to describe the license agreements adjudicated unlawful by said Article IV of this Court's decree of May 15, 1951, and the patents licensed by U. S. Gypsum under any one or more of said licenses, but denies the appropriateness or propriety of such nomenclature for the purpose of National's said petition, or otherwise.

11. U. S. Gypsum denies each and every allegation contained in paragraph 9 of said petition, except as herein otherwise expressly admitted or qualified. Further answering this defendant avers that National paid royalties due under its license of October 17, 1929, with U. S. Gypsum until March 20, 1948, when royalties for the month of February 1948 would have been due, at which time National repudiated its said license agreement and ceased paying royalties. Further answering, this defendant admits that National thereafter paid no royalties to it under said license of October 17, 1929, and that defendant licensees Newark, Ebsary and Certain-teed, also failed to pay royalties to U. S. Gypsum under their respective licenses from approximately February 1, 1948 in the case of Newark, and March 1, 1948 and April 1, 1948, respectively, in the case of Ebsary and Certain-teed. Further answering, this [fol. 1165] defendant admits that subsequent to May 15, 1951, National and Certain-teed entered into new license agreements with it, retroactive to May 15, 1951, wherein each of said companies was licensed under U. S. Gypsum's Roos Patent No. 2,017,022, and that Ebsary and Newark did not enter into any new license agreement with this defendant after May 15, 1951, and avers that the said license agreements which it entered into with National and with Certain-teed subsequent to May 15, 1951, as aforesaid, each provided for the payment of royalty by the licensee at the rate of one per cent (1%) of licensee's selling price of all gypsum board manufactured under or by the use of any of the processes or embodying any of the inventions covered by said Patent No. 2,017,022, and sold by the licensee during the term of said license, except on export sales, but avers that this defendant is without information sufficient to form a belief as to the truth of the averment that said National and Certain-teed have duly paid all royalties under their respective license agreements from May 15, 1951, until the expiration of said patent, the final audit with respect thereto not having as yet been made. Further answering, U. S. Gypsum avers that under date of May 16, 1951, it communicated in writing with National and each of the other defendant licensees, declaring its intention to comply strictly with the provisions of the decree in every respect, and that in said written

communication U. S. Gypsum referred to the license agreements, all of the provisions of which have "heretofore become and now are wholly cancelled and of no effect", and referred to the fact that royalties had not been paid under such agreements nor had U. S. Gypsum sought to compel such royalties, but had merely "stood upon its right to be compensated for the reasonable value of any use" any such defendant licensee may have made of U. S. Gypsum's patents. Further answering, U. S. Gypsum avers that in the written communications originally submitting a form of license to National upon its application [fol. 1166] therefor under said decree of May 15, 1951, in the written communication transmitting such license to National for final execution, and in the written communication acknowledging receipt of the first royalty payment by National thereunder, U. S. Gypsum stated that nothing done in that connection should be construed as a waiver or release of any claim it might have against National for any use which it may have made of Patent No. 2,017,022, or any other patent or patents of U. S. Gypsum.

12. U. S. Gypsum denies each and every averment contained in paragraph 10 of said petition, except as hereinafter expressly admitted or qualified. Further answering, U. S. Gypsum avers that prior to the filing of said National petition, U. S. Gypsum had filed separate suits against National and against Certain-teed in the United States District Court for the Northern District of Iowa, against Ebsary in the United States District Court for the Southern District of New York, and against Newark in the United States District Court for the District of New Jersey, seeking in each instance to recover compensation due U. S. Gypsum for the use of its patents by said respective defendants during the period commencing on or about February 1, 1948, for National and Newark, commencing on or about March 1, 1948, for Ebsary, and commencing on or about April 1, 1948, for Certain-teed, and extending to May 15, 1951, in the case of said National and Certain-teed, and subsequent thereto in the case of said Newark and Ebsary. In each of said suits various claims were set forth in five or more counts, of which one count was based upon a claim for royalties under the license agreement theretofore existing between the plaintiff and de-

fendant therein, and a second count was based upon a claim for royalties under said license agreement, as amended by the parties, whereas other counts were based upon the use of one or more of U. S. Gypsum's patents [fol. 1167] by the respective defendants without any express contract right to do so. Further answering, this defendant begs leave to refer to the complaint filed in each of said suits, copies of which are set forth as Exhibits "A", "B", "C", and "D", to National's petition for a more accurate and adequate statement of the basis of U. S. Gypsum's several claims, as set forth in said respective suits.

13. U. S. Gypsum denies each and every averment contained in paragraph 11 of said petition, except that it admits that on January 28, 1953, it commenced an action in the United States District Court for the Northern District of Iowa against National, a copy of which complaint is attached to said National petition as Exhibit "A", and except that it admits that one of the five alternative counts in said complaint claims $1,600,000 royalties under said National license and another count alleges infringement of its U. S. Gypsum's Roos Patent No. 2,017,022 for the period from February 1, 1948 to May 15, 1951.

14. U. S. Gypsum denies each and every averment contained in Paragraph 12 of the petition, except that it admits that on or about February 27, 1953, it commenced an action in the United States District Court for the Southern District of New York against Ebsary Gypsum Company, a copy of which complaint is attached to said National petition as Exhibit "B", and except that it admits that one of the six alternative counts in said complaint claims $100,000 royalties under U. S. Gypsum's license agreement with Ebsary dated October 18, 1929, and that one of said alternative counts alleges infringement of U. S. Gypsum's Roos Patent Nos. 2,017,022, 2,079,338 and 2,080,009, and another of said counts alleges infringement of U. S. Gypsum's Roos Patent No. 2,044,401.

15. U. S. Gypsum denies each and every averment con- [fol. 1168] tained in Paragraph 13 of the petition, except that it avers that on or about January 30, 1953, it commenced an action in the United States District Court for

the District of New Jersey against Newark Plaster Company, a copy of which complaint is attached to said National petition as Exhibit "C", and except that it admits that one of the six alternative counts in said complaint claims $120,000 royalties under U. S. Gypsum's license agreement with Newark dated April 23, 1930, and another of said counts alleges infringement of U. S. Gypsum's Roos Patent Nos. 2,017,022, 2,079,338 and 2,080,009, and another of said counts alleges infringement of U. S. Gypsum's Roos Patent No. 2,044,401.

16. U. S. Gypsum denies each and every averment contained in Paragraph 14 of the petition, except that it avers that on or about March 11, 1953, it commenced an action in the United States District Court for the Northern District of Iowa against Certain-teed Products Corporation, a copy of which complaint is attached to said National petition as Exhibit "D", and except that it admits that one of the five alternative counts in said complaint claims $650,000 royalties under U. S. Gypsum's license agreement of October 15, 1929, with Certain-teed, and another of said counts alleges infringement of U. S. Gypsum's Roos patent No. 2,017,022 for the period from April 1, 1948 to May 15, 1951.

17. U. S. Gypsum denies each and every averment contained in Paragraph 15 of the petition, except that it admits it has asserted claims against The Celotex Corporation for compensation for the use of U. S. Gypsum's patents by Celotex during a period prior to May 15, 1951, and admits that it has asserted claims against Kaiser Gypsum Company for compensation for use which Kaiser has made of various of U. S. Gypsum's patents, a copy of a notice of infringement to Kaiser dated July 25, 1952, and correspondence relevant thereto being attached to said National petition as Exhibit "E".

[fol. 1169] 18. U. S. Gypsum denies each and every averment contained in paragraphs 16, 17 and 18 of said petition except as hereinafter expressly admitted or qualified. Further answering, U. S. Gypsum avers that in essence U. S. Gypsum's suits in other District Courts against National, Ebsary, Newark and Certain-teed constitute actions (1) to recover unpaid royalties against said defendants under their respective license agreements on the theory

that the agreement to pay royalties is severable and that the combination held to be in restraint of trade notwithstanding the validity of each separate license agreement is collateral to the license agreement as such, and (2) in the alternative to recover the fair and reasonable value for the actual use of said letters patent by said defendants based upon the facts that they repudiated their respective license agreements about the time of the decision of the Supreme Court on March 8, 1948, and that U. S. Gypsum acquiesced in such repudiation, and (3) in the alternative that subsequent to such repudiation the defendants, by the use of said patents, without authority or permission of U. S. Gypsum, infringed the same to the damage of the plaintiff in the sums set forth in said complaints. U. S. Gypsum specifically denies that the said final decree in adjudging said licenses unlawful and null and void thereby barred U. S. Gypsum from enforcing against defendants in any manner directly or indirectly or under any legal theory its said claims as aforesaid. U. S. Gypsum further specifically denies that its said suits in other District Courts against said companies constituted a circumvention of the final decree of this Court. U. S. Gypsum further denies that the question of its right to sue in any court of competent jurisdiction for compensation for past use of its said patents was before this Court at the time the decree of May 15, 1951 was entered, or that there was any misuse of its patents by U. S. Gypsum which resulted [fol. 1170] in the suspension of its right to recover on said claims. U. S. Gypsum further denies that this Court has primary jurisdiction over the questions raised by defendants in their said petitions for the reasons set forth in paragraphs 1 and 2 of this Answer.

Specific Answer to Averments of Claim II

19. U. S. Gypsum adopts and restates as its answer to Paragraph 19 of the petition, each and every denial, admission, qualification and averment contained in its answers to Paragraphs 1 to 18 of the petition as hereinabove set forth, in Paragraphs 5 to 18, both inclusive, of this answer.

20. U. S. Gypsum admits the averments contained in Paragraph 20 of the petition, but further answering avers that there was no obligation upon it to request the Court

at that time to adjudicate its right to compensation for the defendant-licensees' use of its patents during the period following the first Supreme Court decision on March 8, 1948, or to submit any provision in the proposed final decree requiring the defendant licensees to pay said royalties, for the reason that such questions were not then before the Court. Further answering, U. S. Gypsum avers that defendant National, after it repudiated its said license agreements and ceased paying royalties thereunder as aforesaid, continued nevertheless to use U. S. Gypsum's patents, with notice that U. S. Gypsum expected to be paid for any use thereof by National in the manufacture and sale of gypsum board, and that U. S. Gypsum was asserting its right to such compensation for the actual use of its patents during said period.

21. U. S. Gypsum denies each and every averment contained in paragraph 21 of the petition and denies each and every averment contained in each of the separately lettered [fol. 1171] paragraphs A, B, C, D, E, F and G of said paragraph 21. Further answering said paragraph 21 with particular reference to subparagraph H thereof, U. S. Gypsum avers that it had determined to accept the decree of this Court entered November 7, 1949, provided an appeal was not taken from the decree by the Government but that when the Government perfected its appeal on January 6, 1950, U. S. Gypsum determined that it had no alternative except to appeal from said decree in order to present to the Supreme Court at the same time U. S. Gypsum's contention that it had not had its day in court or an opportunity to present its evidence to establish that it had entered into no agreement to violate the Sherman Act under its said patent licenses or otherwise and that this position was duly asserted by U. S. Gypsum from the time it filed its appeal papers on January 6, 1950 until its appeal was dismissed by action of the Supreme Court on May 29, 1950. U. S. Gypsum avers that following the entry of the order dismissing its appeal it accepted the dismissal and continued to assert, in opposition to the Government's appeal, that the final decree adjudicating a violation of the Sherman Act could find support only upon the narrow issue that the defendants had acted in concert under the license agreements and accepting as true the facts in defendants' proof by

proffer and assuming the validity of each separate license agreement when made; that the Supreme Court examined the Government's objections to the decree upon that basis alone and held that the defendants acted in concert through the fixed price licenses notwithstanding "the assumed validity of each separate patent license" (333 U. S. at p. 401) and "accepting as true the underlying facts in defendants' proof by proffer" (340 U. S. at p. 88). U. S. Gypsum further avers, that in fact the minimum price bulletins under the said license agreements had all been cancelled and [fol. 1172] withdrawn upon the expiration of the Haggerty patent on July 8, 1941; that no other such bulletins or prices were issued thereafter by U. S. Gypsum as licensor or otherwise, so that there were no prices or terms or conditions of sale fixed, maintained or stabilized under said licenses at any time since July 8, 1941; and that the said licensees, including National, continued to manufacture and sell gypsum board under their respective licenses and to pay royalty therefor until the first Supreme Court decision on March 8, 1948. U. S. Gypsum further avers that on or about the rendering of the first Supreme Court decision on March 8, 1948, the various licensees, including National, repudiated their respective license agreements and discontinued payment of all license fees or royalties payable or to be paid thereunder, and refused to be bound by any of the provisions thereof, and thereafter neither of the parties took any action to comply with or enforce any of the provisions thereof or to require the other to perform the same during the period for which U. S. Gypsum seeks compensation in the said Iowa suit for National's use of its patent. U. S. Gypsum denies that during the period from February 1, 1948, to May 15, 1951, it continued any illegal patent practice as alleged in the Government's complaint or that during such time it conducted its patent licensing, sales, price or distribution policies in accordance with the terms of any unlawful licenses.

Wherefore U. S. Gypsum prays that the petition be dismissed with costs.

United States Gypsum Company, by Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., Its Attorneys.

[fol. 1173] *Duly sworn to by O. M. Knode. Jurat omitted in printing.*

[fol. 1174] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

ANSWER OF UNITED STATES GYPSUM COMPANY TO PETITION OF CERTAIN-TEED PRODUCTS CORPORATION, FILED HEREIN ON APRIL 22, 1953—Filed September 9, 1953

Comes now United States Gypsum Company, hereinafter sometimes referred to as U. S. Gypsum or this defendant, by its attorneys, Bruce Bromley, Cranston Spray, Robert C. Keck, and Hugh Lynch, Jr., and for answer to the petition heretofore filed in this cause on April 22, 1953, by Certain-teed Products Corporation, hereinafter sometimes referred to as Certain-teed or the petitioner, avers as follows:

First Defense

1. For a first defense, U. S. Gypsum avers that this Court has no jurisdiction of the controversy involved under the claims of said petition, nor of the subject matter of the said claims, for the following reasons:

[fol. 1175] (a) This Court made a limited reservation of jurisdiction in Article X of its decree of May 15, 1951, jurisdiction of the cause and of the parties being retained solely for the purpose of enabling any of the parties to this decree, or any other party hereafter becoming bound thereby in whole or in part, to apply to the Court for "such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or the carrying out of this decree, and (2) for the enforcement of compliance therewith".

(b) The decree of May 15, 1951, did not contain any provision enjoining defendant U. S. Gypsum from suing for the use of its patents for any period prior to the date of the decree. In substance the said decree provided by Article III that the defendant companies had

acted in concert to fix, maintain and control the prices of gypsum board in violation of the Sherman Act; by Article IV that each of the license agreements is adjudged unlawful under the antitrust laws and illegal, null and void; and by Article V that each of the defendant companies is enjoined from entering into or performing any agreement among the defendant companies or other manufacturers to fix, maintain or stabilize by patent license agreements or other acts or course of action, the prices or terms or conditions of sale of gypsum products and from engaging in, pursuant to any such agreement, any of the acts or practices specifically listed in said Article V. Articles VI, VII, VIII and IX provided that U. S. Gypsum shall grant licenses to others upon reasonable royalties without any price-fixing provisions; that the decree shall have no effect upon operations or activities permitted by act of Congress; that representatives of the Department of Justice shall have access to the books and records of defendant companies for the purpose of securing compliance with the decree; and that judgment is entered against defendants for costs, respectively.

(c) The petition hereinbefore filed in this cause by Certain-teed, as aforesaid, is not a petition for an order, etc. herein (1) for the construction or carrying out of the decree, or (2) for the enforcement of compliance [fol. 1176] therewith, but on the contrary is an attempt to insert new provisions in the decree and to obtain a "broadening of the decree" and an adjudication by this Court on a question which was not before this Court at the time it entered either its decree of November 7, 1949 or its decree of May 15, 1951.

(d) This Court does not have jurisdiction, inherent or otherwise, to modify the decree of May 15, 1951, to enlarge its injunctive provisions to cover matters not before the Court at the time the decree was entered, or to change the injunctive provisions from those which were designed only to enjoin agreements or practices fixing, maintaining or stabilizing the prices, terms or conditions of sale or gypsum products by license agreements or other course of action.

This Court being without jurisdiction to entertain it, said petition should be dismissed, or in the alternative should be stricken from the files, and U. S. Gypsum accordingly moves that it be so dismissed or stricken.

Second Defense

2. For a second defense, U. S. Gypsum avers that this Court ought not to take jurisdiction of the matters presented by the said petition, for the reason that another court of concurrent jurisdiction, *i. e.*, the United States District Court for the Northern District of Iowa, has already assumed jurisdiction thereof by reason of the suit heretofore filed in said United States District Court for the Northern District of Iowa, on the 11th day of March, 1953, entitled *United States Gypsum Company* v. *Certain-teed Products Corporation*, Civil Action No. 568.

Third Defense

3. For a third defense, and answering each claim and paragraph of said Certain-teed petition, U. S. Gypsum avers with respect to each claim and paragraph as follows: [fol. 1177] 4. U. S. Gypsum admits the averment contained in paragraph 1 of said petition, and admits that Articles II, IV and X of the final decree contain the language set forth in paragraph 2 of said petition, but denies that said petition is made, or could be made, pursuant to said Article X of the final decree.

5. U. S. Gypsum admits the averments contained in paragraph 3 of said petition, except that it denies that subparagraph (a) thereof accurately describes the royalty provision contained in the agreement dated October 15, 1929 and denies that subparagraph (e) thereof accurately describes the provisions contained in said agreement regarding the keeping and inspection of books of account and records. Further answering, U. S. Gypsum avers that under said agreement Certain-teed agreed to pay U. S. Gypsum, from the date of said agreement, royalties at different rates for defined periods of the agreement, and under said agreement, Certain-teed agreed to pay U. S. Gypsum an amount equivalent to one percent (1%) of the Certain-teed selling price on all plaster board and gypsum board manufactured and

sold by it between July 8, 1941, and the date of expiration of the last expiring patent issued upon certain applications then pending in the United States Patent Office, including an application filed by Carlisle K. Roos, which application was granted on October 8, 1935, by the issuance of United States Patent No. 2,017,022 to U. S. Gypsum, as assignee of said Roos application, and begs leave to refer to said agreement dated October 15, 1929, for a fuller and more complete statement of its provisions in so far as they are pertinent to the matters set forth in said petition.

6. This defendant admits the fact alleged in paragraph 4 of said petition, that on August 15, 1940, the United States of America filed its complaint herein against U. S. Gypsum, Certain-teed and others charging violations of the Sherman [fol. 1178] Act, but denies that the allegations regarding said complaint have been accurately or adequately set forth in said paragraph 4 and begs leave to refer to the complaint herein filed for a fuller and more complete statement of the allegations contained therein in so far as they are pertinent to the matters set forth in said petition.

7. U. S. Gypsum denies each and every averment contained in paragraph 5 of said petition, except that it admits that on March 8, 1948, the Supreme Court of the United States reversed the judgment of this Court dismissing plaintiff's complaint. Further answering, this defendant denies that the decision of the Supreme Court rendered in this cause on March 8, 1948, is accurately or adequately set forth in paragraph 5 of said petition, and begs leave to refer to the decision of the Supreme Court of March 8, 1948, in so far as the same may be pertinent to any of the matters raised by said petition.

8. U. S. Gypsum denies each and every averment contained in paragraph 6 of said petition, except as hereinafter expressly qualified or admitted. Further answering, this defendant admits that after remand of this action to the District Court, plaintiff moved for summary judgment, which the District Court, with Judge Stephens dissenting, granted, and avers that thereafter judgment was entered in conformity therewith on November 7, 1949; admits that plaintiff and defendant U. S. Gypsum thereafter appealed to the Supreme Court, and that the appeal of U. S. Gypsum

was dismissed by the Supreme Court on May 29, 1950, as appears from 339 U. S. 959, 960 and further admits that in an order then entered the Supreme Court affirmed Article III of this Court's decree of November 7, 1949, and enjoined the corporate defendants and an individual, doing business as Texas Cement Plaster Company, as is partially set forth in said paragraph 6, but denies that said dismissal order is adequately set forth in said paragraph 6 of said petition, [fol. 1179] and begs leave to refer to the order of the Supreme Court of May 29, 1950, in so far as the same may be pertinent to any of the matters raised by said petition. Further answering, this defendant avers that it had decided to accept the decree of this Court entered November 27, 1949, but that when the Government decided to appeal this defendant determined that it had no alternative except to appeal also in order to present to the Supreme Court at the same time its contention that it had not had its day in court and had not been afforded an opportunity to present its evidence to establish that it had not violated the Sherman Act by reason of industry-wide patent licenses or otherwise. Further answering, this defendant avers that during the period of its said appeal, it took no action in performance of any of the provisions of said license of October 15, 1929, or to require performance thereof by Certain-teed.

9. U. S. Gypsum denies each and every averment contained in paragraph 7 of said petition, except that it admits that on November 27, 1950, the Supreme Court in 340 U. S. 76 on the Government appeal ordered this Court to modify its decree so as to broaden it in several respects. Further answering, this defendant denies that the decision of the Supreme Court rendered in this cause on November 27, 1950, is accurately or adequately described in paragraph 7 of said petition, and begs leave to refer to the decision of the Supreme Court of November 27, 1950, in so far as the same may be pertinent to any of the matters raised by said petition.

10. U. S. Gypsum, answering paragraph 8 of said petition, admits that this Court modified its prior decree of November 7, 1949, in accordance with the Supreme Court's opinion of November 27, 1950, and on May 15, 1951, entered its final decree, but denies the other averments of said

[fol. 1180] paragraph 8. Further answering, this defendant avers that the provisions of Articles II, III, IV and X theretofore referred to in said petition, as set forth in the final decree of May 15, 1951, were precisely the same as the corresponding provisions of Articles II, III, IV and X of this Court's original decree of November 7, 1949, and that Articles III, IV and V of the May 15, 1951, decree taken together show that this Court as well as the Supreme Court were primarily concerned with concerted action in fixing, maintaining and stabilizing the prices, terms and conditions of sale of gypsum products by patent license agreements or other course of action.

11. U. S. Gypsum denies each and every allegation contained in paragraph 9 of said petition, except as herein otherwise expressly admitted or qualified. Further answering, this defendant avers that Certain-teed paid royalties due under its license of October 15, 1929, with U. S. Gypsum until May 20, 1948, when royalties for the month of April, 1948, would have been due, at which time Certain-teed repudiated its said license agreement and ceased paying royalties. Further answering, this defendant admits that Certain-teed thereafter paid no royalties to it under said license of October 15, 1929, and avers that Certain-teed nevertheless continued to use U. S. Gypsum's patents, including said Patent No. 2,017,022, without paying therefor and although it was fully advised during the entire period of such use that U. S. Gypsum expected to be paid for any use which was made of its patents and was asserting its right to compensation for Certain-teed's actual use thereof.

12. U. S. Gypsum denies each and every allegation contained in paragraph 10 of said petition, except as herein otherwise expressly admitted or qualified. Further answering, this defendant admits that on or about November 9, 1951, Certain-teed entered into a new license agreement, [fol. 1181] pursuant to this Court's final decree, in which U. S. Gypsum licensed Certain-teed under Patent No. 2,017,022, said license providing for royalties payable from and after May 15, 1951, and that said new license agreement contained no reference to any past due royalties, and avers that the said new license agreement provided for royalty at one per cent (1%) of the licensee's selling price of all gypsum board manufactured and sold under the license embody-

ing or made by the use of any of the claims of said patent, and further avers that this defendant is without information sufficient to form a belief as to the truth of the averment that Certain-teed paid the royalties required of it under said new license agreement until the expiration of said patent on October 8, 1952, the final audit with respect thereto not having as yet been made. Further answering, this defendant admits that it did not present to this Court prior to the entry of the final decree its claims for royalties against Certain-teed, but avers that this Court knew prior to the entry of its final decree that Certain-teed as licensee had ceased paying royalties to this defendant shortly after the first decision of the Supreme Court on March 8, 1948, and that this defendant had never waived or given up its claim for such royalties, and further avers that there was no obligation or duty upon this defendant to so inform or advise the Court and that at the time the said decree of May 15, 1951, was entered there was no question before this Court with respect to which such facts would be pertinent or relevant. Further answering, this defendant admits that it did not seek to recover such unpaid royalties as a condition to granting Certain-teed a new license as provided for in the final decree of this Court, but this defendant specifically denies that no claim for such unpaid royalties was made by it in the negotiation of said new license agreement, and further specifically denies that payments [fol. 1182] of royalties under said new license agreement were accepted by this defendant without any reservation of rights or claim to said past due royalties, and avers that, on the contrary, that on or about May 16, 1951, U. S. Gypsum sent to each of the defendant licensees herein a letter relating, among other things, to U. S. Gypsum's position as to prior use of its patents without paying therefor, a copy of the letter so sent to Certain-teed being attached hereto as Exhibit A and made a part hereof; and further avers that in the written communication originally submitting the form of said new license to Certain-teed, in the written communication transmitting it for final execution, and in the communication acknowledging receipt of the first royalty payment thereunder, U. S. Gypsum clearly stated that nothing done in that connection should be construed as a waiver or release of any claim it might have against Cer-

tain-teed for any use which Certain-teed may have made of said patent or of any of this defendant's other patents. Further answering, this defendant specifically denies that it suppressed or concealed from this Court in any way whatsoever that it intended to assert a claim for said unpaid royalties against Certain-teed, as averred in said petition or otherwise.

13. U. S. Gypsum denies each and every averment contained in paragraph 11 of said petition, except that it admits that on or about March 11, 1953, it filed suit against Certain-teed in the United States District Court for the Northern District of Iowa, Central Division, a copy of which complaint is attached to Certain-teed's petition as Exhibit A. Further answering, this defendant denies that said complaint against Certain-teed is accurately or adequately set forth in paragraph 11 of said petition, and begs leave to refer to said complaint, in so far as the same may be pertinent to any of the matters raised by said petition. [fol. 1183] 14. U. S. Gypsum denies each and every averment contained in paragraphs 12 and 13 of said petition.

15. U. S. Gypsum denies each and every averment contained in paragraphs 14 and 15 of said petition, except as hereinafter expressly admitted or qualified. Further answering, U. S. Gypsum avers that in essence, U. S. Gypsum's suit against Certain-teed constitutes an action (1) to recover unpaid royalties against Certain-teed under its license agreement on the theory that the agreement to pay royalties is severable and that the combination held to be in restraint of trade notwithstanding the validity of such license agreement is collateral to the license agreement as such, (2) in the alternative to recover the fair and reasonable value for the actual use of said letters patent by Certain-teed based on the facts that Certain-teed repudiated its license agreement about the time of the decision of the Supreme Court on March 8, 1948, and that U. S. Gypsum acquiesced in such repudiation, and (3) in the alternative that subsequent to such repudiation Certain-teed by its use of said patent, without authority or permission of U. S. Gypsum, infringed the same to the damage of the plaintiff in the sums set forth in said complaint. U. S. Gypsum specifically denies that the said final decree in adjudging said

license unlawful and null and void prevented or barred U. S. Gypsum from enforcing against Certain-teed in any manner directly or indirectly any provision of said license. U. S. Gypsum further specifically denies that its said suit filed against Certain-teed is an attempt to circumvent or avoid the final decree of this Court. U. S. Gypsum further denies that it misused its patents, including Patent 2,-017,022, and that the alleged misuse continued until the execution of the said new license agreement dated November 9, 1951, or any other date. U. S. Gypsum further denies that the question of its right to sue in any court of competent jurisdiction for compensation for past use of its [fol. 1184] patents was before this Court at the time the decree of May 15, 1951, was entered, or that it was under any duty to apply for and secure a determination of this Court that it had terminated the alleged patent misuse and that the consequences thereof had been dissipated, and that in having failed so to apply it is now barred from claiming compensation for the period prior to May 15, 1951.

16. U. S. Gypsum denies each and every averment contained in paragraph 16 of said petition. Further answering, this defendant avers that the matters raised in Certain-teed's petition constitute defenses to said suit heretofore filed in the United States District Court for the Northern District of Iowa, Central Division, which is a court of competent jurisdiction, capable of adjudicating such defenses.

17. U. S. Gypsum denies each and every averment contained in paragraph 17 of said petition.

Wherefore, U. S. Gypsum prays that the said petition be dismissed.

United States Gypsum Company, By Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., Its Attorneys.

[fol. 1185] *Duly sworn to by O. M. Knode. Jurat omitted in printing.*

[fol. 1186] EXHIBIT A TO ANSWER

May 16, 1951.

Certain-teed Products Corporation,
120 East Lancaster Avenue,
Ardmore, Pennsylvania.

Gentlemen:

We are advised that on May 15, 1951, the District Court entered its final decree in Equity Case No. 8017. Referring to Article VI of the decree, we shall be glad to grant you a license in accordance with the provisions thereof. Your application should be in writing specifying the patents you desire to use.

It is needless to say that we intend in every respect strictly to comply with the provisions of the decree. In order that there may be no misunderstanding of our position with respect to the signed license agreements now in your hands and in ours, the same and all of the provisions thereof have heretofore become and now are wholly cancelled and of no effect.

In this connection you will recall that on July 8, 1941, we cancelled all price bulletins theretofore issued under the license agreements specifically described in the decree and no prices or terms or conditions of sale of gypsum board have since been fixed or promulgated thereunder. Since March, 1948, the Supreme Court having rendered its opinion on March 8, 1948, no royalties have been paid by you as provided in your former license agreements, nor have we sought to collect such royalties. We have merely stood upon our right to be compensated for the reasonable value of any use you may have made of our patents.

Very truly yours, United States Gypsum Company,
by —— ——, President.

[fol 1187] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

ANSWER OF UNITED STATES GYPSUM COMPANY TO PETITION OF NEWARK PLASTER COMPANY FILED HEREIN ON MAY 15, 1953 —Filed September 9, 1953

Comes now United States Gypsum Company, hereinafter sometimes referred to as U. S. Gypsum or this defendant, by its attorneys, Bruce Bromley, Cranston Spray, Robert C. Keck, and Hugh Lynch, Jr., and for answer to the petition heretofore filed in this cause on May 15, 1953, by Newark Plaster Company, hereinafter sometimes referred to as Newark or the petitioner, avers as follows:

First Defense

1. For a first defense, U. S. Gypsum avers that this Court has no jurisdiction of the controversy involved under the claim of said petition, nor of the subject matter of said claim, for the following reasons:

[fol. 1188] (a) This Court made a limited reservation of jurisdiction in Article X of its decree of May 15, 1951, jurisdiction of the cause and of the parties being retained solely for the purpose of enabling any of the parties to this decree, or any other party hereafter becoming bound thereby in whole or in part, to apply to the Court for "such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or the carrying out of this decree, and (2) for the enforcement of compliance therewith".

(b) The decree of May 15, 1951, did not contain any provision enjoining defendant U. S. Gypsum from suing for the use of its patents for any period prior to the date of the decree. In substance the said decree provided by Article III that the defendant companies had acted in concert to fix, maintain and control the prices of gypsum board in violation of the Sherman Act; by Article IV that each of the license agreements

is adjudged unlawful under the antitrust laws and illegal, null and void; and by Article V, that each of the defendant companies is enjoined from entering into or performing any agreement among the defendant companies or other manufacturers to fix, maintain or stabilize by patent license agreements or other acts or course of action, the prices or terms or conditions of sale of gypsum products and from engaging in, pursuant to any such agreement, any of the acts or practices specifically listed in said Article V. Articles VI, VII, VIII and IX provided that U. S. Gypsum shall grant licenses to others upon reasonable royalties without any price-fixing provisions; that the decree shall have no effect upon operations or activities permitted by act of Congress; that representatives of the Department of Justice shall have access to the books and records of defendant companies for the purpose of securing compliance with the decree; and that judgment is entered against defendants for costs, respectively.

(c) The petition hereinbefore filed in this cause by Newark, as aforesaid, is not a petition for an order, [fol. 1189] etc., herein (1) for the construction or carrying out of the decree, or (2) for the enforcement of compliance therewith, but on the contrary is an attempt to insert new provisions in the decree and to obtain a "broadening of the decree" and an adjudication by this Court on a question which was not before this Court at the time it entered either its decree of November 7, 1949 or its decree of May 15, 1951.

(d) This Court does not have jurisdiction, inherent or otherwise, to modify the decree of May 15, 1951, to enlarge its injunctive provisions to cover matters not before the Court at the time the decree was entered, or to change the injunctive provisions from those which were designed only to enjoin agreements or practices fixing, maintaining or stabilizing the prices, terms or conditions of sale of gypsum products by license agreements or other course of action.

This Court being without jurisdiction to entertain it, said petition should be dismissed, or in the alternative should

be stricken from the files, and U. S. Gypsum accordingly moves that it be so dismissed or stricken.

Second Defense

2. For a second defense, U. S. Gypsum avers that this Court ought not to take jurisdiction of the matters presented by the petition, for the reason that another court of concurrent jurisdiction, *i. e.*, the United States District Court for the District of New Jersey, has already assumed jurisdiction thereof by reason of the suit heretofore filed in said United States District Court for the District of New Jersey, on the 30th day of January, 1953, entitled *United States Gypsum Company* v. *Newark Plaster Company,* Civil Action No. 93-53.

[fol. 1190] Third Defense

3. For a third defense, and answering each claim and paragraph of said Newark petition, U. S. Gypsum avers with respect to each claim and paragraph as follows:

4. U. S. Gypsum admits the averments contained in paragraphs 1 and 2 of said petition, and further answering begs leave to refer to the final decree entered by this Court on May 15, 1951, for a fuller and more complete statement of its contents in so far as they are pertinent to the matters set forth in said petition.

5. U. S. Gypsum denies each and every averment contained in paragraph 3 of said petition, except that it admits that on March 8, 1948, the United States Supreme Court rendered its opinion on the first appeal in Civil Action 8017 (333 U. S. 364), and further answering specifically denies that the averment with respect to its decision contained in said paragraph 3 accurately quotes from or describes the basis of the Supreme Court's decision, and begs leave to refer to the decision itself for an accurate and complete statement of its provisions in so far as the same may be pertinent to any of the matters raised by said petitioner.

6. U. S. Gypsum denies each and every averment contained in paragraph 4 of said petition, except as hereinafter expressly admitted or qualified. Further answering U. S. Gypsum admits that on or about January 30, 1953,

it commenced an action against Newark in the United States District Court for the District of New Jersey, and avers that in said suit various claims were set forth in six counts, of which one count was based upon a claim for royalties under the license agreement theretofore existing between U. S. Gypsum and Newark, and a second count was based upon a claim for royalties under said license agreement, as amended by the parties, and the other counts were based [fol. 1191] upon the use of U. S. Gypsum's patents by Newark without any express contract right to do so. Further answering, this defendant begs leave to refer to the complaint filed in said suit, a copy of which is attached to the petition of National Gypsum Company, hereinafter sometimes referred to as National, as Exhibit "C," for a more accurate and adequate statement of the basis of U. S. Gypsum's several claims against Newark, as set forth in said suit.

7. U. S. Gypsum denies each and every averment contained in paragraph 5 of said petition, except as hereinafter expressly admitted or qualified. Further answering, U. S. Gypsum admits that it has filed separate suits against National and against Certain-teed Products Corporation, hereinafter sometimes referred to as Certain-teed, in the United States District Court for the Northern District of Iowa, Central Division, and against Ebsary Gypsum Company, Inc., hereinafter sometimes referred to as Ebsary, in the United States District Court for the Southern District of New York, each of whom is a defendant herein, and avers that in each instance these suits seek to recover compensation due U. S. Gypsum for the use of its patents by said respective Defendants during the period commencing on or about February 1, 1948, for National, commencing on or about March 1, 1948, for Ebsary, and commencing on or about April 1, 1948 for Certain-teed, and extending to May 15, 1951, in the case of said National and Certain-teed, and subsequent thereto in the case of said Ebsary. In each of said suits various claims were set forth in five or more counts, of which one count was based upon a claim for royalties under the license agreement theretofore existing between the plaintiff and defendant therein, and a second count was based upon a claim for royalties under said license agreement, as amended by the parties, whereas other

counts were based upon the use of one or more of U. S. Gypsum's patents by the respective defendants without any [fol. 1192] express contract right to do so. Further answering, this defendant begs leave to refer to the complaint filed in each of said suits, copies of which are set forth as Exhibits "A," "B" and "D" attached to the petition herein of National, dated March 25, 1953, for a more accurate and adequate statement of the basis of U. S. Gypsum's several claims, as set forth in said respective suits.

8. U. S. Gypsum denies each and every averment contained in paragraph 6 of said petition.

9. U. S. Gypsum denies each and every averment contained in paragraph 7 of said petition and of paragraph 21 of Claim II of the petition herein of National, dated March 25, 1953, which is incorporated by reference in said paragraph 7. Further answering said paragraph 7, this defendant incorporates herein by reference with the same force and effect as if herein fully set forth paragraph 21 of its answer to paragraph 21 of the said petition of National.

10. U. S. Gypsum admits that Article X of this Court's decree of May 15, 1951, contains the language set forth in paragraph 8 of said petition, but denies that said petition is made, or could be made, pursuant to said Article X of the said decree.

11. U. S. Gypsum denies each and every averment contained in paragraph 9 of said petition. Further answering U. S. Gypsum avers that in essence U. S. Gypsum's suit against Newark constitutes an action (1) to recover unpaid royalties against said defendant under its license agreement on the theory that the agreement to pay royalties is severable and that the combination held to be in restraint of trade in this case notwithstanding the validity of each separate license agreement, including the Newark agreement, is collateral to the license agreement as such, and (2) in the alternative to recover the fair and reasonable [fol. 1193] value of the actual use of said letters patent by said defendant based upon the facts that Newark repudiated its said license agreement about the time of the decision of the Supreme Court on March 8, 1948 and that U. S. Gypsum acquiesced in such repudiation, and (3) in the alternative

that subsequent to such repudiation, Newark, by the use of said patents without authority or permission of U. S. Gypsum, infringed the same to the damage of the plaintiff in the sum set forth in its complaint. U. S. Gypsum further denies that this Court has primary jurisdiction over the questions raised by Newark in its said petition for the reasons set forth in paragraphs 1 and 2 of this answer.

Wherefore, U. S. Gypsum prays that the petition be dismissed with costs.

United States Gypsum Company, by Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., Its Attorneys.

[fol. 1194] *Duly sworn to by O. M. Knode. Jurat omitted in printing.*

[fol. 1195] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

ANSWER OF UNITED STATES GYPSUM COMPANY TO PETITION OF EBSARY GYPSUM COMPANY, INC., FILED HEREIN ON JUNE 3, 1953—Filed September 9, 1953

Comes now United States Gypsum Company, hereinafter sometimes referred to as U. S. Gypsum or this defendant, by its attorneys, Bruce Bromley, Cranston Spray, Robert C. Keck, and Hugh Lynch, Jr., and for answer to the petition heretofore filed in this cause on June 3, 1953, by Ebsary Gypsum Company, Inc., hereinafter sometimes referred to as Ebsary or the petitioner, avers as follows:

First Defense

1. For a first defense, U. S. Gypsum avers that this Court has no jurisdiction of the controversy involved under the claim of said petition, nor of the subject matter of said claim, for the following reasons:

[fol. 1196] (a) This Court made a limited reservation of jurisdiction in Article X of its decree of May 15,

1951, jurisdiction of the cause and of the parties being retained solely for the purpose of enabling any of the parties to this decree, or any other party hereafter becoming bound thereby in whole or in part, to apply to the Court for "such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or the carrying out of this decree, and (2) for the enforcement of compliance therewith".

(b) The decree of May 15, 1951, did not contain any provision enjoining defendant U. S. Gypsum from suing for the use of its patents for any period prior to the date of the decree. In substance the said decree provided by Article III that the defendant companies had acted in concert to fix, maintain and control the prices of gypsum board in violation of the Sherman Act; by Article IV that each of the license agreements is adjudged unlawful under the antitrust laws and illegal, null and void; and by Article V that each of the defendant companies is enjoined from entering into or performing any agreement among the defendant companies or other manufacturers to fix, maintain or stabilize by patent license agreements or other acts or course of action, the prices or terms or conditions of sale of gypsum products and from engaging in, pursuant to any such agreement, any of the acts or practices specifically listed in said Article V. Articles VI, VII, VIII and IX provided that U. S. Gypsum shall grant licenses to others upon reasonable royalties without any price-fixing provisions; that the decree shall have no effect upon operations or activities permitted by act of Congress; that representatives of the Department of Justice shall have access to the books and records of defendant companies for the purpose of securing compliance with the decree; and that judgment is entered against defendants for costs, respectively.

(c) The petition hereinbefore filed in this cause by Ebsary, as aforesaid, is not a petition for an order, etc. [fol. 1197] herein (1) for the construction or carrying out of the decree, or (2) for the enforcement of compliance therewith, but on the contrary is an attempt to insert new provisions in the decree and to obtain a

"broadening of the decree" and an adjudication by this Court on a question which was not before this Court at the time it entered either its decree of November 7, 1949 or its decree of May 15, 1951.

(d) This Court does not have jurisdiction, inherent or otherwise, to modify the decree of May 15, 1951, to enlarge its injunctive provisions to cover matters not before the Court at the time the decree was entered, or to change the injunctive provisions from those which were designed only to enjoin agreements or practices fixing, maintaining or stabilizing the prices, terms or conditions of sale of gypsum products by license agreements or other course of action.

This Court being without jurisdiction to entertain it, said petition should be dismissed, or in the alternative should be stricken from the files, and U. S. Gypsum accordingly moves that it be so dismissed or stricken.

Second Defense

2. For a second defense, U. S. Gypsum avers that this Court ought not to take jurisdiction of the matters presented by the petition, for the reason that another court of concurrent jurisdiction, *i. e.*, the United States District Court for the Southern District of New York, has already assumed jurisdiction thereof by reason of the suit heretofore filed in said United States District Court for the Southern District of New York, on the 27th day of February, 1953, entitled *United States Gypsum Company* v. *Ebsary Gypsum Company, Inc.*, Civil Action No. 83-83.

[fol. 1198] Third Defense

3. For a third defense, and answering each claim and paragraph of said Ebsary petition, U. S. Gypsum avers with respect to each claim and paragraph as follows:

4. U. S. Gypsum admits the averments contained in paragraphs 1 and 2 of said petition, and further answering begs leave to refer to the final decree entered by this Court on May 15, 1951 for a fuller and more complete statement of its contents in so far as they are pertinent to the matters set forth in said petition.

5. U. S. Gypsum denies each and every averment contained in paragraph 3 of said petition, except that it admits that on March 8, 1948, the United States Supreme Court rendered its opinion on the first appeal in Civil Action 8017 (333 U. S. 364), and further answering specifically denies that the averment with respect to its decision contained in said paragraph 3 accurately describes the basis of the Supreme Court's decision, and begs leave to refer to the decision itself for an accurate and complete statement of its provisions in so far as the same may be pertinent to any of the matters raised by said petition.

6. U. S. Gypsum denies each and every averment contained in paragraph 4 of said petition, except as hereinafter expressly admitted or qualified. Further answering U. S. Gypsum admits that on or about February 27, 1953, it commenced an action against Ebsary in the United States District Court for the Southern District of New York, and avers that in said suit various claims were set forth in six counts, of which one count was based upon a claim for royalties under the license agreement theretofore existing between U. S. Gypsum and Ebsary, and a second count was based upon a claim for royalties under said license agreement, as amended by the parties, and the other counts were based upon the use of U. S. Gypsum's patents by Ebsary [fol. 1199] without any express contract right to do so. Further answering, this defendant begs leave to refer to the complaint filed in said suit, a copy of which is attached to the petition of National Gypsum Company, hereinafter sometimes referred to as National, as Exhibit "B", for a more accurate and adequate statement of the basis of U. S. Gypsum's several claims against Ebsary, as set forth in said suit.

7. U. S. Gypsum denies each and every averment contained in paragraph 5 of said petition, except as hereinafter expressly admitted or qualified. Further answering, U. S. Gypsum admits that it has filed separate suits against National and against Certain-teed Products Corporation, hereinafter sometimes referred to as Certain-teed, in the United States District Court for the Northern District of Iowa, Central Division, and against Newark Plaster Company, hereinafter sometimes referred to as Newark, in the United

States District Court for the District of New Jersey, each of whom is a defendant herein, and avers that in each instance these suits seek to recover compensation due U. S. Gypsum for the use of its patents by said respective defendants during the period commencing on or about February 1, 1948, for National and Newark, and commencing on or about April 1, 1948 for Certain-teed, and extending to May 15, 1951 in the case of said National and Certain-teed, and subsequent thereto in the case of said Newark. In each of said suits various claims were set forth in five or more counts, of which one count was based upon a claim for royalties under the license agreement theretofore existing between the plaintiff and defendant therein, and a second count was based upon a claim for royalties under said license agreement, as amended by the parties, whereas other counts were based upon the use of one or more of U. S. Gypsum's patents by the respective defendants without any express contract right to do so. Further answering, this defendant [fol. 1200] begs leave to refer to the complaint filed in each of said suits, copies of which are set forth as Exhibits "A", "C" and "D" attached to the petition herein of National, dated March 25, 1953, for a more accurate and adequate statement of the basis of U. S. Gypsum's several claims, as set forth in said respective suits.

8. U. S. Gypsum denies each and every averment contained in paragraph 6 of said petition.

9. U. S. Gypsum denies each and every averment contained in paragraph 7 of said petition and of paragraph 21 of Claim II of the petition herein of National, dated March 25, 1953, which is incorporated by reference in said paragraph 7. Further answering said paragraph 7, this defendant incorporates herein by reference with the same force and effect as if herein fully set forth paragraph 21 of its answer to paragraph 21 of the said petition of National.

10. U. S. Gypsum admits that Article X of this Court's decree of May 15, 1951, contains the language set forth in paragraph 8 of said petition, but denies that said petition is made, or could be made, pursuant to said Article X of the said decree.

11. U. S. Gypsum denies each and every averment contained in paragraph 9 of said petition. Further answering

U. S. Gypsum avers that in essence U. S. Gypsum's suit against Ebsary constitutes an action (1) to recover unpaid royalties against said defendant under its license agreement on the theory that the agreement to pay royalties is severable and that the combination held to be in restraint of trade in this case notwithstanding the validity of each separate license agreement, including the Ebsary agreement, is collateral to the license agreement as such, and (2) in the alternative to recover the fair and reasonable value of the actual use of said letters patent by said defendant based upon the facts that Ebsary repudiated its said license agreement about the time of the decision of the Supreme [fol. 1201] Court on March 8, 1948, and that U. S. Gypsum acquiesced in such repudiation, and (3) in the alternative that subsequent to such repudiation, Ebsary, by the use of said patents without authority or permission of U. S. Gypsum, infringed the same to the damage of the plaintiff in the sum set forth in its complaint. U. S. Gypsum further denies that this Court has primary jurisdiction over the questions raised by Ebsary in its said petition for the reasons set forth in paragraphs 1 and 2 of this answer.

Wherefore, U. S. Gypsum prays that the petition be dismissed with costs.

United States Gypsum Company, by Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., *Its Attorneys.*

[fol. 1202] *Duly sworn to by O. M. Knode. Jurat omitted in printing.*

[fol. 1203] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

ANSWER OF UNITED STATES GYPSUM COMPANY TO PETITION OF UNITED STATES OF AMERICA, FILED HEREIN ON JUNE 30, 1953.—Filed September 9, 1953

Comes now United States Gypsum Company, hereinafter sometimes referred to as U. S. Gypsum or this de-

fendant, by its attorneys, Bruce Bromley, Cranston Spray, Robert C. Keck, and Hugh Lynch, Jr., and for answer to the petition heretofore filed in this cause on June 30, 1953 by United States of America, hereinafter sometimes referred to as the plaintiffs, avers as follows:

First Defense

1. For a first defense, U. S. Gypsum avers that this Court has no jurisdiction of the controversy involved in the claim asserted in paragraph 5 of said petition, nor of the subject matter of said claim, for the reason that said claim is not within the limited reservation of jurisdiction in Article X of this Court's final decree of May 15, 1951, [fol. 1204] and is not within the inherent jurisdiction of this Court, as a court of equity, to modify said decree by enlarging its injunctive provisions as requested in the first prayer of said petition. This Court, being without jurisdiction to entertain it, said petition should be dismissed, or in the alternative should be stricken from the files, and U. S. Gypsum accordingly moves that it be so dismissed or stricken.

Second Defense

2. For a second defense, and answering each claim and paragraph of said petition, U. S. Gypsum avers with respect to each claim and paragraph as follows:

3. U. S. Gypsum admits the averments contained in paragraph 1 of said petition and admits that on May 15, 1951, this Court entered its final decree herein, and that Articles IV and X of said final decree contains the language set forth in paragraph 2 of said petition, but denies that said petition could be made pursuant to said Article X of the final decree.

4. U. S. Gypsum admits the averments contained in paragraphs 3 and 4 of said petition.

5. U. S. Gypsum denies the averments in paragraph 5 of said petition and specifically denies that its said actions in whole or in part are barred by this Court's final decree of May 15, 1951, and further specifically denies that its said actions constitute an attempt to defeat said decree.

6. U. S. Gypsum admits the averments contained in paragraph 6 of said petition.

Wherefore, U. S. Gypsum prays that the said petition be dismissed.

United States Gypsum Company, By Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., *Its Attorneys.*

[fol. 1205] *Duly sworn to by O. M. Knode. Jurat omitted in printing.*

[fol. 1206] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

BRIEF OF UNITED STATES GYPSUM COMPANY IN ANSWER TO THE BRIEFS FILED HEREIN BY DEFENDANT PETITIONERS.—Filed September 9, 1953

* * * * * * *

[fols. 1207-1255] From this it is argued that U. S. Gypsum cannot truthfully and conscientiously certify to the District of Columbia Court that there were no agreements between it and National or Certain-teed entered into between the 1948-1951 period, and on the other hand bring suit to enforce such an agreement in Iowa. The colloquy could, of course, only have reference to the license agreements listed and any amendment or supplement to such license agreements. It could not have been referring to an implied promise to pay in the absence of an express agreement, which is the basis of the *quantum meruit* recovery sought in Counts III and IV of the Iowa suits; nor could it have any reference to the infringement count.

* * * * * * *

[fol. 1256] The answers of U. S. Gypsum to the petitions filed in this Court raise material issues of fact which

cannot be resolved as a matter of law against U. S. Gypsum without a factual inquiry.

Moreover, this Court on the record before it knows of a number of facts any one of which constitutes evidence of purge at a time prior to May 15, 1951.

Five such facts are as follows:[82a]

1. As this Court has already found, U. S. Gypsum did not fix prices under its licenses after July 8, 1941.[83]

2. As this Court knows,[84] the defendant petitioners ceased paying royalties under their licenses shortly after the March 8, 1948 opinion of the Supreme Court. In Count III of the suits filed by U. S. Gypsum in the federal courts in Iowa, New York and New Jersey, it is averred that at [fol. 1257] that time the licensees repudiated their licenses, that U. S. Gypsum acquiesced in that repudiation, and that thereafter each treated its license as rescinded, several years prior to May 15, 1951, no action being taken either by the particular licensee to comply with, or by U. S. Gypsum to enforce or require performance of, any of the provisions thereof.

3. As this Court also knows,[85] after the Government had moved for summary judgment in 1949, and its motion had been granted, U. S. Gypsum in the early spring of 1949, in connection with consideration of a form of decree, offered forms of new licenses to its licensees and filed copies of these forms with this Court in June and July, 1949. Each such form of license avoided provisions found objectionable in the Supreme Court's first decision. Since the minor differences between the forms of licenses first offered and those filed with this Court on July 23, 1949,

---

[82a] These five facts are, of course, only illustrative and not the only or exclusive facts showing purge.

[83] See findings of fact No. 19 of this Court, which was unopposed by the Government in its appeal. 1947 R. 4143; 67 F. Supp. 397, 412. U. S. Gypsum sworn ans. to Nat. pet. par. 21.

[84] See Nat. Petition p. 9, and Cert. Petition p. 9. This nonpayment of royalties is admitted in U. S. Gypsum's answers to these petitions.

[85] Tr. 8257, 8260.

could not be said to indicate any continued patent misuse by U. S. Gypsum, these licenses and their tender to the licensees, who are the defendant petitioners here, demonstrate a purge by U. S. Gypsum as early as February or March, 1949. This is particularly true in light of the abandonment of price fixing in 1941, and the averment in Count III of the mutual rescission of licenses in the spring of 1948.

4. On November 7, 1949, this Court's decree was entered adjudicating the licenses to be illegal, null and void, and enjoining their enforcement. Although appeals were taken on January 6, 1949, by the Government and U. S. Gypsum, the evidence will show, as alleged in U. S. Gypsum's answers to the petitions, that it had decided not to appeal the decree unless the Government appealed, in which event it felt it would be required to appeal, in self defense.

[fols. 1258-1283] 5. The Supreme Court on May 29, 1950, in dismissing U. S. Gypsum's appeal (339 U. S. 960), enjoined the defendants from "enforcing in any manner whatsoever" the price provisions of the license agreements.

Each of these facts, according to the authorities, constitutes a purging of any alleged patent misuse by U. S. Gypsum. The cumulation of these facts establishes purge beyond any doubt.

[fol. 1284] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

BRIEF FOR THE UNITED STATES—Filed October 8, 1953

Preliminary Statement

This brief is filed in support of the petition which the United States filed in this cause on June 30, 1953, for orders or directions for the construction, carrying out, or enforcement of this Court's final decree of May 15, 1951. The petition was filed for the purpose of securing an adjudication that this Court's final judgment bars de-

fendant United States Gypsum Company (USG) from prosecuting certain claims made in four actions which it has instituted in other federal district courts, and for [fol. 1285] the purpose of obtaining entry of an order or orders giving effect to such an adjudication.

The actions to which the Government's petition relates were brought early in 1953. In these actions, the defendant, and the district in which suit is pending, are: National Gypsum Company (N. D. Iowa), Newark Plaster Company (D. N. J.), Ebsary Gypsum Company, Inc. (S. D. N. Y.), and Certain-teed Products Corporation (N. D. Iowa).[1] In each action USG makes the following alternative claims: (1) recovery of the royalties payable to USG under the terms of one or more prior patent licensing agreements made between it and such defendant, (2) recovery on a *quantim meruit* basis by reason of the defendant's use of one or more of the USG patents licensed under such agreements, or (3) damages for infringement by reason of such use. Recovery is sought for a period running from shortly before or after March 8, 1948, the date of the Supreme Court's decision in *United States* v. *United States Gypsum Company*, 333 U. S. 364, to May 15, 1951, the date of entry of final judgment in the present cause.

It stands admitted that in each of these actions USG is seeking to recover the royalties payable under certain license agreements which the final decree of this Court had adjudged to be "unlawful under the antitrust laws of the United States and illegal, null and void."[2] The [fol. 1286] position of the United States, as set forth in its petition, is that said final judgment bars enforcement of any claim based in whole or in part upon any license agreement thus adjudged null and void, and that suit to recover upon any such claim constitutes an attempt to defeat the Court's final judgment. The petition prays, by way of relief, that this Court enjoin USG from asserting any claim, and from

---

[1] These defendants, each of which is also a defendant in the present cause, will be respectively referred to as National, Newark, Ebsary and Certain-teed.

[2] See averments of paragraphs 2-4 of Government's petition, admitted by USG's answer to said petition.

maintaining, instituting, or threatening to institute any action, based in whole or in part on any license agreement which the Court had adjudged illegal, null and void.

The United States stated in its petition that it takes no position as to whether USG's alternative claims for recovery on a *quantum meruit* basis or for infringement, as made in the four foregoing actions are barred by this Court's final decree of May 15, 1951, or as to whether this Court should enter an order enjoining USG from prosecuting such alternative claims.

Certain-teed, Ebsary, National and Newark have filed separate petitions, each requesting this Court to enjoin USG from prosecuting its pending action against the petitioner, or any like action. After these petitioners had filed briefs in support of their petitions, USG answered the petitions and filed an answering brief. The briefs thus filed set forth in some detail the prior proceedings in the present cause insofar as the proceedings are deemed rele- [fol. 1287] vant to the issues raised by the pending petitions. In these circumstances, the Government believes it unnecessary to review the various steps in this litigation, which culminated in the entry of the final judgment of May 15, 1951. The aspects of the prior proceedings which we consider important will be referrred to in connection with the contentions which we make in support of the Government's petition.

USG's answer to the Government's petition pleads as a first defense that the Court has no jurisdiction, either under Article X of its final judgment or under its inherent equity powers, of the issue presented by the Government's petition, and moves that the petition be dismissed or stricken for want of jurisdiction. Of course, when a court's jurisdiction is drawn in question, this is the threshold question in the case. However, this Court's jurisdiction of the Government's petition turns largely on the conclusion reached concerning the meaning and effect of the substantive provisions of the Court's judgment. If the Court accepts our views on this matter, we believe that there can be no substantial doubt concerning the Court's jurisdiction.

[fol. 1288] [File endorsement omitted]

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

REVOCATION OF DESIGNATION OF CIRCUIT JUDGE HAROLD M. STEPHENS, AND DESIGNATION OF CIRCUIT JUDGE KIMBROUGH STONE, RETIRED, TO REPLACE CIRCUIT JUDGE HAROLD M. STEPHENS AS A MEMBER OF THE COURT IN THE ABOVE-ENTITLED CASE—December 22, 1953

Because of my duties as Chief Judge of the District of Columbia Circuit and because of the accumulation and urgency of business in the United States Court of Appeals for the District of Columbia Circuit, and because my duties as an Advisory Member of the Commission on Judicial and Congressional Salaries created pursuant to Public Law 220, 83rd Congress, will conflict with my performance of the duties necessary for a hearing of the above-entitled case commencing on January 12, 1954, it is my judgment that the public interest requires that the order of September 15, 1942, designating me as a Circuit Judge to serve as a member of the Court to hear and determine the above-entitled case should be revoked and that another Judge should be designated to replace me as a member of the Court to hear and determine said case; Accordingly, I hereby revoke, this revocation to be effective January 11, 1954, the said order so far as it designates me as a member of the Court to hear and determine the above-entitled case, and, pursuant to the authority vested in me by Section 28 [fol. 1289] of Title 15, United States Code, I do hereby designate effective January 11, 1954, the Honorable Kimbrough Stone, United States Circuit Judge, retired, heretofore designated by the Chief Justice of the United States to act as a United States Circuit Judge for the District of Columbia Circuit, in my place and stead as a member of the Court to hear and determine the above-entitled case.

Done this 22nd day of December, 1953.

Harold M. Stephens, Chief Judge of the United States Court of Appeals for the District of Columbia Circuit.

[fol. 1290] [File endorsement omitted]

IN UNITED STATES DISTRICT COURT

[Title omitted]

AMENDMENT TO DESIGNATION OF JUDGES—December 23, 1953

The Chief Justice of the United States having revoked, effective January 12, 1954, the designation made on September 15, 1942, of the Honorable Finis J. Garrett, Chief Judge of the United States Court of Customs and Patent Appeals, to perform the duties of District Judge and hold a District Court in the District of Columbia, it has become necessary to amend the designation of Judges to hear and determine the above-entitled case, dated September 15, 1942, so as to provide for the replacement of said Honorable Finis J. Garrett by another District Judge;

Now, Therefore, pursuant to the authority vested in me by Section 28 of Title 15, United States Code, I hereby amend said designation of September 15, 1942, by designating, effective January 12, 1954, the Honorable Eugene Worley, Judge of the United States Court of Customs and Patent Appeals, heretofore designated by the Chief Justice of the United States to serve as a Judge of the United States District Court for the District of Columbia, in the place and stead of the said Honorable Finis J. Garrett, to hear and determine the above-entitled case.

Done this 23d day of December, 1953.

Harold M. Stephens, Chief Judge of the United States Court of Appeals for the District of Columbia.

[fol. 1291] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA, HOLDING A THREE-JUDGE STATUTORY COURT

Civil Action No. 8017

UNITED STATES OF AMERICA, Plaintiff,

v.

UNITED STATES GYPSUM COMPANY, et al., Defendants

Reporter's Transcript of Hearing on Petitions of National, et al.—January 12, 1954

Court Room No. 19, Sixth Floor, United States Court House, Washington, D. C.

Tuesday, January 12, 1954.

The above-entitled cause came on for oral argument on petitions of National Gypsum Company, Certain-teed Products Corporation, Ebsary Gypsum Company, Inc., and Newark Plaster Company, at 11:00 a.m., pursuant to notice, before Honorable Kimbrough Stone, Honorable William P. Cole, Jr., and Honorable Eugene Worley, sitting as the District Court of the United States for the District of Columbia.

APPEARANCES:

Edward Knuff, Esq., Special Assistant to the Attorney General; and

Vincent A. Gorman, Esq., and

Lawrence Gochberg, Esq., Trial Attorneys, on behalf of the United States of America.

[fol. 1292] Cranston Spray, Esq., Bruce Bromley, Esq., Robert C. Keck, Esq., Hugh Lynch, Jr., Esq., and John E. MacLeish, Esq., on behalf of United States Gypsum Company.

Seymour Krieger, Esq., Samuel I. Rosenman, Esq., Elmer E. Finck, Esq., and Seymour D. Lewis, Esq., on behalf of National Gypsum Company.

Norman A. Miller, Esq., Herbert W. Hirsh, Esq., C. Roger Nelson, Esq., Donald N. Clausen, Esq., and Franklin

M. Schultz, Esq., on behalf of Certain-teed Products Corporation.

Albert E. Hallett, Esq., on behalf of The Celotex Corporation.

Joseph S. Rippey, Esq., on behalf of Ebsary Gypsum Company, Inc.

Benjamin P. DeWitt, Esq., on behalf of Newark Plaster Company.

[fol. 1293] PROCEEDINGS

Judge Stone: Are you gentlemen ready to proceed in the presentation of this Civil 8017?

Mr. Bromley: Yes, Your Honor. United States Gypsum Company is ready.

Mr. Rosenman: The petitioners are ready, Your Honor.

Judge Stone: It would be advantageous to the court if you gentlemen would give to the reporter the names of counsel who are to represent the particular parties. I will ask those representing the petitioners to give theirs first, please.

Mr. Rosenman: I think that has been done, Your Honor.

Judge Stone: Has that been done?

Mr. Rosenman: Yes, sir.

Judge Stone: Have you gentlemen determined, that is, among the petitioners, particularly, as to who will present the case orally?

Mr. Rosenman: We have agreed, sir, that I—my name is Rosenman, representing the National Gypsum Company—would present the main part of the argument so far as time is concerned, but each of the other petitioners would like to be heard separately.

Mr. DeWitt: We have determined the order in which the petitioners' counsel will speak.

Judge Stone: Now, for the defendant, United States Gypsum Company, you gentlemen have determined, of course, who will address the court?

[fol. 1294] Mr. Bromley: Yes, Your Honor. My name is Bruce Bromley. My firm is Cravath, Swaine and Moore, from New York, and we represent the United States Gypsum Company. I shall argue orally.

Also, the Chicago firm of MacLeish, Spray, Price and

Underwood are the general counsel for the United States Gypsum Company, and with the court's permission, Mr. Spray will participate in the oral presentation and will make the first argument, I to follow him. We estimate, if it is of interest to the court, that we will consume not more than three hours.

Judge Stone: Now getting down to the matter of time, which Mr. Bromley has suggested, I understand, Mr. Bromley, from you that the United desires three hours for its presentation?

Mr. Bromley: Yes, Your Honor.

Judge Stone: How much do the petitioners desire, Mr. Rosenman?

Mr. Rosenman: Speaking for the National Gypsum Company, sir, I would like two hours for the direct presentation and would like a half-hour for rebuttal, if that is agreeable to the court.

Judge Stone: That is just for the National?

Mr. Rosenman: That is right. Now, Mr. DeWitt, speaking for one of the petitioners, I think——

Mr. DeWitt: My name is DeWitt. I represent Newark Plaster Company. I should like one-half hour.

Mr. Miller: I am Mr. Miller, representing Certain-teed [fol. 1295] Products. We will request only a half-hour.

Judge Stone: Ebsary?

Mr. Rippey: I am Joseph Rippey, representing the Ebsary Gypsum Company, and I should like about ten minutes.

Judge Stone: If I am correct in my calculation of your time, petitioners desire three hours and fifteen minutes. And the Government?

Mr. Knuff: If Your Honor please, my name is Edward Knuff. I represent the Government. I do not believe that I would require more than a half-hour.

Judge Stone: That would make three hours and forty-five minutes. Suppose, to take care of eventualities, we allow four hours, and, of course, a similar time, if you desire, Mr. Bromley, will be allowed the United to present their case in answer.

Mr. Bromley: Thank you, Your Honor.

Judge Stone: Now, in reply, Mr. Rosenman, I believe, suggested thirty minutes.

Mr. Rosenman: Yes, sir.

Judge Stone: Is that for all the petitioners?

Mr. DeWitt: I should like to reserve ten minutes, if the court please, on behalf of Newark Plaster Company.

Mr. Miller: May I suggest, if Your Honor please, that in reply the petitioners be allowed one hour to be divided between us, a time not to exceed one hour for all petitioners?

[fol. 1296] Judge Stone: Is that agreeable to the petitioners?

Mr. Rosenman: Yes, sir.

Judge Stone: Then the time allowed will be four hours for the presentation in main by the petitioners and four hours to answer by the United, and one hour to be divided as petitioners' counsel may determine among themselves for reply.

Is that satisfactory to all parties?

Mr. Rosenman: Yes, sir.

Mr. Bromley: Yes, sir.

Judge Stone: That will make nine hours all together. We will divide that among the two days.

Do counsel desire daily transcripts from the reporter?

Mr. Rosenman: I think we have arranged with the reporter for transcripts, have we not?

Judge Stone: Those are daily transcripts, Mr. Reporter?

(The reporter answered in the affirmative.)

Judge Stone: Will you please furnish the judges with the same copies?

You wish yours sent to your office?

Judge Cole: I wish mine sent to our office.

Judge Stone: And you want yours sent to your office?

Judge Worley: Yes.

Judge Stone: If you will send the copies of Judge Cole and Judge Worley to their offices in the Internal Revenue Building, and you may send mine to my office here, which is 6333.

[fol. 1297] Gentlemen, for your information, the court will divide its two days in this manner: Today we will have arguments from eleven—it is a little past, but we will take

that slack up—until one, and from two to four-thirty. Tomorrow the hours will be ten to one and two to three-thirty.

If I am correct, I believe that exactly covers the hours allowed.

Will you proceed on the part of the defendants?

Mr. Rosenman: May I ask Your Honor to notify me when I have consumed an hour and a half, so that I will have a half-hour's notice?

Thank you.

Judge Stone: Pardon me. May I suggest, if you will have one of your counsel do that, for I get absorbed in the argument and do not watch the clock. I will ask that in relation to all of the counsel who argue.

Argument on Behalf of National Gypsum Company

By Mr. Rosenman:

Mr. Rosenman: I speak, if Your Honors please, for the National Gypsum Company, one of the defendants in an antitrust suit which was commenced some time ago by the United States of America. This antitrust suit resulted in a decree which I shall ask the privilege of discussing in detail with Your Honors.

That decree, we petition this court now to enforce. We urge upon Your Honors that that decree of this court is now [fol. 1298] being flouted by the United States Gypsum Company in that it has brought actions in Iowa, in New York, and in New Jersey, which to our mind violate the fair intendment of the decree, and we ask this court now to enjoin the United States Gypsum Company from proceeding with the litigation which it has begun in those three states.

The original antitrust action was brought by the United States of America against the United States Gypsum Company and these petitioners who sit here, some five corporations. And the gravamen of that action was that the United States Gypsum Company had by means of patents, which it owned and which it acquired, regimented the entire gypsum industry, organized it completely, and regulated not only the production and prices of gypsum and gypsum products, but also its distribution and its sales and its transportation.

The U. S. Gypsum Company, at the time when it began

this process of regimentation, owned some patents, and in order to complete the regimentation, acquired some patents. This is all covered very fully in the complaint and in the various court decisions which have resulted from this litigation.

Owning some patents and acquiring others, it proceeded to get the entire industry—and when I say the entire industry, Your Honors, I mean the entire industry—to agree to a system of price fixing and regulation of production and distribution, so that it could truthfully be said by the Su- [fol. 1299] preme Court of the United States twice that it did in fact regiment the entire industry and monopolize the entire industry and control it from beginning to end.

It did it by means of licenses of its patents, and the licenses which it issued to these various licensees, now petitioners here, provided for price fixing on the part of United States Gypsum. U. S. Gypsum was to fix the minimum prices. It was also to regulate to whom patented gypsum products could be sold; and in addition to these licenses, Your Honors, U. S. Gypsum embarked on a system of control through organizing a subsidiary corporation known as the Board Survey Company, which sent bulletins, hundreds of bulletins, to the various other members of this group, and that includes the entire gypsum industry, at least in the eastern part of the United States, being defined as all of the United States east of the Rocky Mountains.

This litigation, sirs, went up twice to the Supreme Court of the United States, and in both of those instances there were findings which I shall discuss in detail to the effect that this whole plan was a violation of the antitrust laws of the United States, and that these license agreements and the bulletins which accompanied them were all illegal, and that the license agreements themselves were not only illegal as contrary to the antitrust laws of the United States, but were in law null and void, and those two words are quotes [fol. 1300] from the decrees and from the fair intendment of the Supreme Court decision.

After it had been twice to the Supreme Court of the United States, this court was asked to formulate its decree to cover this situation, and to undo the evil effects which had been created by this monopoly and restraint, for the

defendants were found guilty of violating both Section 1 and Section 2 of the Sherman Act.

The decree itself declared that these licenses were null and void. There can be no doubt about that, as we will see as we examine the decree.

The decree also directed a number of other things be done which I shall cover, including compulsory licensing, not only of the patents which U. S. G. then owned, but all patents which it might own within the next five years.

In other words, this decree opened up this entire industry from the strait-jacket into which it had been placed by these license agreements and by the bulletins which went out pursuant to them.

[fol. 1301] The basis of this decree, and the basis of the decision by the Supreme Court, was that these patents had been misused, as your Honors and as the courts interpret that phrase, "misused," that they had been misused, and that the misuse had not been purged, and that therefore they would have to undergo certain means of opening them up to the entire industry.

Now, when this was first enunciated by the Supreme Court of the United States, in its first opinion, which was on March 8, 1948, the Supreme Court then for the first time held that these license agreements, by reason of the misuse, had become null and void and illegal, and as a result of that, these six licensees discontinued paying royalties which were provided in the license agreements. In view of the fact that the license agreements were held to be illegal, these licensees discontinued paying the license fees, or the royalties.

This continued through the further course of this litigation until this court entered its final decree, and its final decree was that these licenses were null and void, and that they should be non-existent and non-enforcible, but that U.S.G. was directed to license on reasonable terms anybody who applied for a license, and, of course, "reasonable terms" would mean excluding all of the illegal provisions which had been found to exist in these licenses.

My client and some of the other petitioners, following this decree, did enter into agreements with U.S.G. for the [fol. 1302] further use of these patents on reasonable roy-

alties and on conditions which were very different from the conditions which applied before the decree and before the finding of illegality. It has paid its royalties from the time of the signing of the decree and from the time that it entered into the new license agreements. It did not, however, pay the royalties for the time elapsing between the declaration by the Supreme Court of the United States that the licenses were illegal, and it did not pay those royalties until the time when the illegality was removed and they entered into the new license granted compulsorily by U.S.G. There is this lapse of some three and one-half years of royalties.

It is for the payment of those royalties that U.S.G. has brought an action against my client and one of the other petitioners in the state of Iowa, and it is for those royalties that it has brought actions against other petitioners in the state of New York and the state of New Jersey.

We are here, sirs, to urge that those actions brought on license agreements which this court and the Supreme Court have twice condemned as illegal and have stated are null and void, that those suits in Iowa and New York and in New Jersey be stayed by this court on the ground that they violate this decree.

I should say something about the causes of action which have brought in Iowa against us. It is hard to believe, but that complaint in Iowa, consisting of five counts, has four [fol. 1303] counts founded upon these very license agreements which have been declared null and void. The first two counts of the complaint in Iowa are based upon actual expressed contracts to the effect that National Gypsum entered into these license agreements and that they agreed to pay royalties under them, and that they have not paid royalties for three and one-half years, this in spite of the fact that this court and the Supreme Court have stated that these licenses and these agreements were null and void.

The second two counts, namely, counts 3 and 4, in Iowa, are based upon what U.S. Gypsum, the plaintiff there, calls quantum meruit, saying that even if these license agreements do not expressly direct us to pay royalties because of the holding of null and void, that nevertheless we used the royalties, and therefore on some basis of quantum

meruit we should pay the reasonable value of the patents which were used to produce our gypsum.

Now, the amount sued for in counts 1 and 2, namely, on the express agreements, is $1,600,000, and the amount claimed for quantum meruit is exactly the same. There is no difference in the damages claimed for any of the first four counts, and we urge that all of those four counts must of necessity be invalid because they are based on agreements which have been declared to be illegal, null and void, and that therefore, on that holding alone, they should be enjoined by this court because what they do is to fly in the face of the decree of this court.

[fol. 1304] Now, the fifth cause of action in Iowa is different. It is not based on the license agreements, but the fifth cause of action alleges merely that we used the patents for this period of time, three and one-half years, and that in using the patents, we were infringers, and therefore the claim is for the same amount, $1,600,000. We are here to urge that that, too, flies in the face of the decree because if the decree means anything in saying that these license agreements are null and void, we urge upon your Honors that it must mean that they cannot be sued upon in any form, and if you change the mere form from an actual contract action, or a quantum meruit action, to a claim for damages for infringement, you are only changing the form and not the essence, and therefore on the face of the decree, that is an improper cause of action on which this court should take some action itself in order to protect its own decree.

Now, in Iowa we have interposed defenses, as have the other defendants in the other jurisdictions, and we have set up, of course, the fact that this court has declared these license agreements null and void, and with respect particularly to the fifth cause of action, but it also applies to others, we urge that these patents, of which U.S.G. says we are infringers, that these patents were so misused, and that misuse was found by this court and by the Supreme Court, that they cannot sue for infringement until they show that that misuse has been completely purged.

[fol. 1305] Now, those are the issues pending in Iowa, and we urge that since the decree says that the licenses were null and void and since the Supreme Court has twice

said that these patents on which they are suing us were misused, we urge that on the face of the decree itself, U.S.G. should be enjoined from continuing these suits; and we urge it on three theories:

In the first place, as I say—and it covers Point 1 of our brief—on the very face of the decree, which says in so many words that the license agreements are null and void, no suit should be tolerated by this court which seeks to recover on those licenses, whether it is on express contract or on quantum meruit or on the basis of infringement.

Now, if your Honors disagree with us on that, then we urge as a second point that, if your Honors disagree that the face of the decree itself should ban these suits in Iowa, then because of the misuse of the patents, this court, in order to implement its decree and to effectuate the basic purpose of its decree, should do what the court did in the Hartford Empire case and in the National Lead case, both Supreme Court cases, as your Honors know, which forbade by injunction any suit for royalties which were earned prior, or which purported to be earned prior, to the entry of the decree.

That has become a common doctrine in misuse cases. It has become a common remedy to purge the misuse of patents, to order that royalties which otherwise would have been earned by a proper use of the patent should be en- [fol. 1306] joined for any period prior to the decree which sought to dissipate the evil effects of that misuse.

As a third theory, we urge that since the Iowa court has before it this pending litigation in which the defendants urge a misuse of the patent, this court should undertake, in the manner of carrying on a proper administration of justice, to enjoin the further prosecution in that court in order to carry out its own decree with respect to the misuse of the patents.

Now, that, too, since the Morton Salt case, has become a common remedy in private litigation. Since the Morton Salt case, there have been many cases between private litigants in which a defense against infringement or against royalties has been the misuse of patents, and the courts have sustained that defense.

We urge that since that defense has been raised or will be raised in three jurisdictions, and for other reasons

which I shall cover in greater detail, this court should undertake now to decide the question as between U.S.G. and the petitioners, in order to avoid the multiplicity of actions which are now going on in different parts of the United States which might result in diverse rulings and which this court has the power, and we should urge, the discretion, to stay and decide by itself.

So on those three theories, we urge that this court now stop the litigation and decide these questions itself on our petition.

[fol. 1307] With that preliminary statement, I should like, if your Honors please, to examine in a little more detail the decree of this court. I do not know whether your Honors have printed copies of it. I would respectfully direct your attention first to Article II, appearing on page 4. That is the definitions article. The definitions here are very important, because the definitions in this final decree were quite different from the definitions in the preceding decrees. They are much broader here, and we are urging that the Supreme Court broadened the earlier decrees, and that there can have been no purge of any misuse until this decree was entered.

Now, the fundamental defense of the United States Gypsum Company to this petition is, first, that the only thing that was declared illegal was the price-fixing provisions of the patented gypsum board, and that nothing else was really found to be illegal. They also urge that each license agreement by itself was assumed to be lawful, and that it only became unlawful by reason of the fact that everybody in the industry entered into the same license agreement and with the knowledge of each other adhered to those price-fixing provisions.

They urge finally that this case is different from the Hartford Empire and National Lead cases, and that there really was no misuse of the patents here, and all that happened was that the court found that the price fixing of the patented gypsum board was illegal because the entire industry engaged in it.

[fol. 1308] Now, we urge that what the court found was far broader than that. The court found that this whole planning was illegal, that the price-fixing provisions as to patented board were only one small facet of it, and that the

conspiracy extended to unpatented products, to all products, and not just to gypsum board, and that as a result of the patent misuse, U.S.G. was enabled to regiment the industry to decide that we could not sell to jobbers, to fix their royalties on unpatented board as well as patented, and to compel us really to fix prices on all other gypsum products that we sold in connection with the patented board.

[fol. 1309] That is the issue between us now, and it is with that in mind particularly, Your Honors, that I would ask your indulgence in examining this decree in a little greater detail.

If Your Honors will notice, they distinguish in Definitions 2 and 3 between gypsum board and gypsum products, and in gypsum board, they include not only patented gypsum board, but unpatented gypsum board as well, because gypsum board, as defined here does not restrict itself to patented gypsum board, although USG has always claimed and still claims that the only illegality was with respect to the patented gypsum board.

Then I ask Your Honors to look at "gypsum products," which means everything in the gypsum business other than gypsum board.

Now, this is the first decree which talked about gypsum products. The license arrangements from USG said nothing about gypsum products. It talked only about patented board. But the Supreme Court finds, as Your Honors will see as we go through this, that there was such a vast conspiracy covering and regimenting the entire industry and stabilizing prices in it, that it had to make findings and it had to make decretal provisions with respect to all gypsum products.

I might perhaps, with the realization that Your Honors are not in the gypsum industry, show you some samples of what we are talking about. If the Clerk will show you that piece of patented wallboard and a piece of patented plaster-[fol. 1310] board, or lath, if Your Honors will notice on one side of that board, the paper is folded over. On both of them, the paper is folded over.

The only difference between those two articles is that one has a smooth surface. That is the patented wallboard.

The other is a rough surface, which is plasterboard. The wallboard is put right on the inside of a building, and you can paint it or put wallpaper right on it. The plasterboard requires that in addition to the board itself, some plaster be put on it, but both of them are patented, and Your Honors will notice that both of them have one edge closed.

Now, that is only a small piece of what a piece of board is. It is very large. In the regular piece of board, both sides will be closed in with that piece of paper. That is what is referred to in this case as closed-edge board, and that was very important, Your Honors, because before USG had a patent to close that board, the board was open-edge board. All sides of it would be open; and when you started to nail it to the wall, it would either crack or it would splinter at the end; the plaster inside would be crumbled, and it became very difficult to handle, so that the closed-edge board became very important in the industry, and that was the patented board.

In addition to that, there were some patents which put starch in the mixture of the plaster. Those boards were made by running a piece of paper and then pouring the [fol. 1311] plaster on it. The plaster was mixed with water, and plaster, as Your Honors see, made of gypsum is just pulverated gypsum, which comes out of the ground. That is made into a product which is called slurry, mixed with water, and is poured on this paper, and then that is called a liner, and then on top of it comes a long liner, and the important thing is that under this patent, the liner is at the edge folded over, as Your Honors see there, and becomes closed-edge wallboard.

It was by means of this original patent that USG regimented the industry, because everybody wanted to use this. It was much better for building.

Judge Stone: That was an improvement patent?

Mr. Rosenman: Yes, sir; it was an improvement, and it was through that patent, called the Utsman Patent, which is not important in this case, so far as the name is concerned, that they regimented the industry. Everybody wanted that, and they come in and they signed these license agreements, but they agreed to pay royalty not only on the patented product but also on the unpatented wallboard, even though it was not covered by a patent.

The Supreme Court found that that was a conspiracy, too, and a part of the misuse to cover unpatented products by extending the lawful patent monopoly to an unpatented product.

Now, to return to this decree, Your Honor will see the definition of "patent licenses." Especially the patent [fol. 1312] license that we were operating under was the second one, dated October 17, 1929.

Now, the patents themselves are defined in Definition No. 4, Your Honors will notice, to mean not only the patents now owned or controlled by USG, but the patents which they will own or acquire within a period of five years after the signing of the decree.

In other words, this Court determined that in order to purge the misuse of these patents, they would have to license compulsorily, as you will see in the later part of the decree, not only the patents which they *they* owned, but also any patents which they would acquire within a period of five years. And that was the first time that that provision ever appeared in a decree, and it appeared because the Government urged and the Court found that in order successfully to purge the misuse of these patents, they would have to open up the entire industry, not only as it existed on the date of the decree but any time within five years that USG acquired any patents.

Now, if Your Honors will turn to Article III, which is the adjudication that was found, Your Honors will see that this Court found that USG and the other defendants had violated Section 1 and Section 2, that they had not only restrained trade and commerce, but that they had monopolized trade and commerce.

Then the following article, Article IV, is the holding of [fol. 1313] null and void, and I submit to Your Honors that it could not be clearer; it could not be broader, and it could not be more emphatic, that each of the license agreements listed in Article II—And that includes the ones under which these petitioners were operating—each of them is adjudged unlawful under the anti-trust laws and illegal, null and void.

Now, there is nothing in there that only the price-fixing provisions are illegal, null and void. This is the declaration that the license agreement in toto is unlawful, null and void.

Then we come to the injunction, Your Honors will see that what they enjoin is agreements or understandings not only about patented board—they do not use patented board any more—they talk about gypsum products. That includes patented board; it includes unpatented board; it includes plaster and everything that is involved, and they say that you cannot fix, maintain or stabilize them by the patent license agreements, and they say you cannot do it by any other acts or course of action.

Now, those other acts or course of action refer to these hundreds of bulletins which went out, which the Supreme Court in both of its Opinions described as the means by which the industry was regimented. This says you cannot do that any more. It says you cannot do anything to fix the prices or the terms or conditions of sale of gypsum products.

I shall indicate to Your Honors how they had up to this [fol. 1314] point fixed the terms and conditions of sale of all gypsum products, not only patented board but unpatented board and plaster and all of the products that did come within the definition of gypsum products, defined in this decree.

Then it says there are four specific things that you cannot do. Now, the four specific things are other elements of the conspiracy and regimentation, and they were carried out, not by the license agreements but by means of bulletins. The first one you cannot do is to classify purchasers or refrain from selling to a class of purchasers.

Now, that refers to proof which was adduced and which the Supreme Court held was conclusive, that they not only fixed prices, but they said:

> "You cannot sell to any jobbers; you cannot sell to any manufacturing distributors unless we agree first in writing as to who they are and unless they are willing to buy at the same price that you sell to your other customers."

Now, obviously, as the Supreme Court held, that did away with all jobbers, because no jobber could buy at the same price without any discount and then survive, so that as

a matter of fact the Court found this: All jobbers were eliminated.

Then subdivision 3 of that Article says that you cannot have a delivered price plan. Now, that, too was done by means of bulletins, so that prices were fixed, so that every- [fol. 1315] body in the United States, no matter where they were located, paid the same amount for gypsum, and they did it by very minute regulation of the basing points and the transportation costs, and so forth.

As the Supreme Court held, a part of the regimentation was control of this transportation and transportation costs.

Then the fourth is very important. It forbade USG from policing, investigating, checking or inquiring into the prices, quantities, terms or conditions.

The original license agreement provided that USG could come in and check our books and see whether we really were violating the provisions against underselling, and the way we would do it—and this was a part of the regimentation—was that if, for example, any one of these licensees felt that it wanted to violate the price-fixing provision, it could say to a customer:

> "Now, we will sell you this wallboard or this plasterboard at the price that USG says we will have to sell it, but we can give you a little rebate by selling you the plaster a little cheaper."

[fol. 1316] Now, the U.S.G. clamped down on that right away, and said that if you sell plaster, even if there is no patent on that—everybody has plaster and sells plaster—but these bulletins said that if you sell this plaster a little cheaper in order to give the rebate to a purchaser, we consider that undercutting and underselling the patented board, and it is not permitted under the license.

This court, pursuant to what the Supreme Court of the United States said in its decree, forbade the continuance of that.

Then in Article VI, your Honors will notice that U.S.G. was directed to license at a reasonable royalty all patents as heretofore defined. Now, "as heretofore defined," includes not only existing patents, but the patents acquired for five years, and it is directed to license anybody who

asks at any time all of its patents that it now has and that it will have until 1956, which is five years.

Then the next paragraph is very important, because it actually states what can go into those licenses, and particularly regulation (b) is very important, that the royalty may not be imposed upon—this is on page 8, paragraph 2—the royalty may not be imposed upon or measured by patent-free products. Now, that was something new in this industry, because U.S.G. up to this point had collected royalties not only on the patented board but on unpatented board as well, and this court said, "You cannot do that any more; you are going to have to license everybody, and [fol. 1317] you can only measure your royalties on the actual patented board which is sold."

Then the next paragraph, (c), provides that you cannot go into our books any more in order to check to see whether we have sold unpatented products at a lower price. The only thing you can go into our books for is to see how much of the patented product we have sold, and therefore how much royalty we owe you, so that in this provision, which is very important in the purge question, in this provision for the first time this court really opened up the patents of U.S.G., and said that you had to give it to everybody in the industry, anybody who asked for it, on certain terms, and these terms discontinued the old terms which were used which the court found provided the means of regimentation.

Now may I ask your Honors to turn to Article X? That Article, on page 12, retains jurisdiction of this cause in this court, and it retains it for the purpose of enabling any of the parties—and I emphasize that, because in some point of the U.S.G. brief you will find a contention that only the United States Government has the right to come in. This says that it has the purpose of enabling any of the parties or any other person that may hereafter become bound hereby to apply to this court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction, or carrying out of this decree, and (2) for the enforcement of [fol. 1318] compliance therewith.

We are appearing here before this court under this Article X, asking for an order which would construe your de-

cree the way we request your Honors to construe it, and then carry it out, namely, that you carry it out to prevent disobedience to the decree. But we are also appealing to your Honors not only under Article X, which is very specific, but also under the general equity powers of any court to see that its decrees are carried out and that they are not flouted by one party going into other jurisdictions and trying as we urge to circumvent the decree by civil actions.

Now, as I say, this is the final decree in this case, and it was the result of a long litigation. The case was tried here in this court and was completed in 1944, and the court reserved decision, and finally in 1946 it dismissed the complaint of the Government, and, of course, rendered judgment for the defendants. The Government appealed, and the Supreme Court reversed in its first opinion, which I shall try to discuss at some length, on March 8th, 1948, and in that opinion it said that there was this illegal conspiracy that violated the anti-trust laws, and the whole thing was illegal, and that is when we stopped paying royalties.

The Supreme Court, after so finding, remanded the case to this court in order to continue proceedings in accordance with its decree, and this court did. It called the law-
[fol. 1319] yers together and said, "How shall we proceed from this point?" And after a long conference, it was arranged that the United States Government would file a motion for a summary judgment based upon the record as then made, that U.S.G. through Judge Bromley, would file a proffer of proof of what it intended to prove in order to meet the prima facie case which had been already produced, and that proffer of proof was submitted by Judge Bromley, and in the main, it paralleled pretty exactly the findings of this court when it dismissed the Government's complaint.

In other words, this court dismissed the complaint and made certain findings which I will discuss to the effect that there was no plan or conspiracy, that this was entered into in good faith, et cetera.

Those findings were reversed by the Supreme Court, as I shall point out, and Judge Bromley's proffer of proof stated that we intend to prove that these things did not happen, that there was no such plan or conspiracy.

Now, this court declined to receive evidence of that offer of proof, and instead ordered summary judgment for the Government, and it held hearings here and received memoranda which I shall refer to as to the form of the decree and as to the findings that it should make now that its original findings had been reversed. There were arguments about it, and finally this court did enter its decree in November of 1949. That is the first decree of this court enjoining the defendants from doing things [fol. 1320] and making certain findings.

The Government was not satisfied with that decree, and appealed from it, saying that this decree should be broadened if we are really to purge this industry of the patent misuse.

U.S.G. was also dissatisfied with the decree, and appealed on the ground that it should be permitted to offer its defense by actual evidence rather than by a proffer of proof. So both parties appealed to the Supreme Court. The Supreme Court denied U.S.G.'s appeal by an intermediate order, and stated probable jurisdiction of the Government's appeal, and then when the appeal came on, the Supreme Court enlarged the decree of the court below, and it was as a result of that enlargement that the court below, this court, made this final decree which we say is now being disobeyed by U.S.G.

Now, I think I have covered our first point, that this is a declaration of nullity on the basis of which no action can be brought in Iowa on an express contract, and we think that it is equally clear, and we have cited cases, at least one case, a Supreme Court case of the United States, Bruce's Juices against the American Can Company, to the effect that if there is an illegal contract resulting from a violation of the anti-trust laws, there cannot be an action in quantum meruit, that if it is illegal, you cannot sue on the contract, and you cannot sue to recover in quantum meruit.

I should ask your Honors to bear in mind that at the [fol. 1321] time of this declaration of nullity and voidness, U.S.G. was continually asking that the court find only that the only illegality was, as it put it, the plurality of licenses fixing the prices of patented gypsum board. But the Supreme Court and this court brushed that aside

and said that the entire agreement is illegal, null and void.

Now, we urge also that on the very basis of the decree, the action for royalties, for infringement, should also be barred, because if you allow this action to continue in a different form for the same substance as if this were a valid, enforcible license, then we think that substance has given way to form.

Now, there is no doubt, your Honors, that this court understood what was meant by this null and void, because as we shall show, during the argument as to the form of the decree, U.S.G. submitted memoranda, and we submitted memoranda, and there was oral argument, all of which has been placed before your Honors, and in the memorandum which U.S.G. submitted with respect to the form of this decree, it said in so many words that the reason that the licensees here were urging that there be a finding of illegal, null and void was that under such a finding no royalties would be payable.

Now, that understanding was submitted to this court by Judge Bromley. His original memorandum, so stating and calling attention to this court, is before your Honors. We have made copies of it, if your Honors would each like a [fol. 1322] copy of that memorandum, which called to the attention of this court that the effect of a declaration of null and void would mean that no royalties would be recoverable, and therefore it begged the court not to make such a finding.

Judge Worley: Is that in the record?

Mr. Rosenman: That is in the record. The memorandum is in the record, yes, sir. We have copies here. It is not in the printed record, but it was a memorandum which was submitted to this court when it was framing its decree. As I say, the original is before your Honors.

Judge Stone: You might place copies of that in the hands of the court.

Mr. Rosenman: Yes, sir. And in that memorandum, and in his oral argument, Judge Bromley and his partner, Mr. Connelly, urged that all that this court should find would be that the illegality consisted of this plurality of price fixing, and that is all that could be found to be null and void. But as I repeat, the court brushed that aside and made this absolute finding that it was null and void.

[fol. 1323] Now, U.S.G. in its brief attempts to meet what I think is this very clear point of null and void by pointing out first that this was no express injunction against the enforcement of the license agreement, and I admit that. There was not in its final decree, but it seems to me that that should not in any way prevent this court from making its decree effective. On the very face of the decree, if it is null and void, we think it almost follows as night the day, that it cannot be enforced, otherwise there would be no reason for saying that it was null and void.

They also urge that this was some sort of a collateral illegality, and they rely on the Connelly case. I do not want to take up the time to discuss the Connelly case, but our brief shows that that is wholly inapplicable.

The Connelly case was one where a combination—one member of a combination sold or licensed its product to someone else. And that someone else sought to resist royalties on the ground that its licensor was a member of a conspiracy; in other words, if National, my client, had sold some gypsum board to someone and sued to recover the price, and that man had said, "You are part of an illegal conspiracy and therefore you are not entitled to recover the price," that would be the Connelly case. And that is not this case at all.

This is the case of a regimentation of an industry, and the dispute is between members of that conspiracy, so found by the court, and it is not the Connelly case. And we [fol. 1324] distinguish it very clearly in our brief and mention the other cases which have refused to follow the Connelly case in similar circumstances with this, because the Connelly case is one of a collateral invalidity rather than an actual inherent invalidity as appears here.

Now, to pass from the actual face of the decree, because we think the very face of the decree should forbid this suit, there is one additional thing that I would like to call to your Honor's attention. On the face of the decree, paragraph 6 which refers to compulsory licensing, refers to the fact that it must be on a reasonable basis, and that if a proposed licensee is not satisfied that it is reasonable then they have the right to come in and have that reasonableness determined by a court.

We think, and we urge upon your Honor that this decree

which said that from the date of this d cree "if you are going to make any licenses they must be reasonable, and we, the Court, are going to pass upon that reasonableness." By saying that they must have intended that any licenses which were made—they could not have intended that a license which was made before the decree could have been done on any kind of unreasonable terms—in other words, the court must not have intended to make this kind of distinction between a license before the decree in which the licensee would have no protection from the court, and a license after the decree in which the licensee would have a protection from the court.

And we urge on the basis of it that on the face of the [fol. 1325] decree alone, as I have been arguing, the very fact that future licensees are going to be protected would make it clear, it seems to us, that the court did not intend that any pre-decree licenses could be enforced, because those pre-decree licenses were unreasonable, had unreasonable provisions in, and the court could not have left them to the mercy of the U.S.G. just because the licenses were made before the decree. And in the same decree say that all future licenses are to have all of these reasonable protections.

Now, leaving the face of the decree, Your Honors, and going to our second point, we say even if I have not been successful in convincing Your Honors that this decree should be enforced by Your Honors, because the action of U.S.G. violates the very face of the decree, then we go to the second point and say that in order to implement your decree and to achieve your basic purpose you should enjoin U.S.G. from proceeding with this suit.

Now, the basic purpose of the decree—and that is the language used by the court dealing with purge and misuse—was stated by the Supreme Court of the United States to be this, to cure the ill effects of the illegal conduct and to assure the public freedom from its continuance.

And we say, sirs, that in order to cure the ill effects of the illegal conduct and to assure the public freedom from its continuance, in order to effectuate that basic purpose there should be an injunction by Your Honors against this litigation in Iowa.

[fol. 1326] And I would like to take a moment, if I may,

to state to Your Honors what our conception is and what we think is the conception of the courts about property in the form of patents.

All through the brief of U.S.G., Your Honors will find a great deal of what we call "scare language" saying that it is not proper for these licensees who have used the patents now to come in and claim patent misuse in order to escape their liability for royalties, that there is something immoral about it. And it is to that contention that I desire to direct Your Honors' attention, to the difference between ordinary property and patent property, because the courts have held time and again, and we cite them in our brief, that a patent is a privilege which is conditioned by a public purpose, and that in all patent procedure public interest is dominant, and that it is the public interest and the public policy which is the prime consideration of the courts in dealing with patents; that a patentee, a man who is given this privilege by law of saying that anybody who wants to use the fruit of my invention must pay for it and nobody else, even though he knows how—nobody else can make that patent; that that is a great privilege which is given by the United States to people to further the arts and sciences. But that that privilege is burdened with a very heavy responsibility; and that that responsibility is that this monopoly which is given to you—and a patent is frankly a monopoly which would normally violate the antitrust laws—of course, we give [fol. 1327] you this patent monopoly, Mr. Inventor, on condition that you do not misuse it.

This is the source of great power to you.

It also has great dangers that you can use it to do exactly what U.S.G. did in this case. You can use it to bring within your monopoly things which you are not entitled to bring into your monopoly. And there are many cases like that, like Morton Salt itself, where the patentee said to a licensee, "You can use our patent providing you also buy from us some unpatented products."

And there are many cases which have sought to extend the lawful patent monopoly to cover unpatented products or to violate the antitrust laws in other ways.

And it is now accepted doctrine in all of the courts, following the Hartford Empire case, and the National Lead

case, and Morton Salt, and B. B. Chemical and other cases, a long list of them cited in our brief—it has become traditional to say to a patentee, "Now, if you go beyond your patent monopoly, and if you use it in a way which violates the policy of the United States as expressed in its antitrust laws, then you have misused the patents and you have forfeited for that period of time—for that period of time, I repeat, in which you misused—you have forfeited your right to compensation for it."

That is a comparatively new doctrine, but it has become, [fol. 1328] since these cases in the forties, accepted law throughout the United States. And it is founded in public policy, namely, that we are willing to take chances with a patent monopoly, but we will not permit a patent monopoly to be extended so as to violate the public policy of the United States. And once it is so violated, then it becomes no longer a matter, Your Honors, between the patentee and the licensee—it is no longer a matter between U.S.G. and its licensees here—it is now a matter of the Public policy of the United States and the public interest of the United States.

And we urge upon Your Honors that this court, having found the misuse in so many different ways, and the Supreme Court having found also the misuse in so many different ways, that as a matter of public policy and as a matter of public interest, U.S.G. should be forbidden to recover the royalties which it otherwise would have been entitled to recover, so long as that misuse continues.

And it is our contention, sirs, that that misuse continued until this decree was signed, and until this decree opened up all of the patents, opened up in the form of licensing and forbade the further continuance of all of the bulletins which regimented the industry in the form of distribution and production and prices—that until this decree was signed on May 15, 1951, that misuse continued. And we urge upon Your Honors that following the Morton Salt doctrine, and the doctrine of the Hartford Empire Case, [fol. 1329] and the National Lead case, all of which are thoroughly discussed in our briefs, Your Honors should now say to United States Gypsum, "You have misused these patents," and even though the face of the decree does

not say that you cannot bring these suits, "We now say to you in order to implement this decree and effectuate its basic purposes as laid down by the Supreme Court that you cannot continue to bring these infringement suits for royalties for a period of time that you have misused these patents."

And to that extent, a patent is a very different from an ordinary property.

I thought, for example, this analogy, that if you are riding in a taxicab and the taxicab driver violates the law by speeding or passing red lights or any number of the laws of the city or state and commits misdemeanors in doing it, still when he gets you to your destination he is entitled to his fare.

The courts have held, and it seems to be well settled law by a long line of cases, that if you have a patent and you violate the law in using the patent, your passenger, your licensee, does not have to pay you the royalties. And the cours*t* have said "We do that not as a favor to the licensee—we do not say that because you are a licensee you do not have to do it—we do it in order to uphold the public policy as expressed in our antitrust laws, and the public interest which is determined to be against any form of [fol. 1330] monopoly other than that allowed by our patent laws."

And I have found some very apt language in a case which is not cited in our brief, and I would appreciate it if Your Honors would just make a note of it, 166 Fed. 2nd 61, which is in the Fifth Circuit, 1948, Hawkinson Company v. Dennis, in which the court says this much better than our brief does. And if you will bear with me to read this short excerpt:

> "In patent infringement cases, however, the patent being a public grant made in the interests of the public and the public interests being always present, courts have been quite liberal in allowing infringers and licensees to escape being brought to book for their infringement."

And this was an action for a patent infringement. And the defense of misuse was interposed. And then a sum-

mary judgment motion was made by the defendant on the ground of the misuse, and the court there dismissed the complaint and entered judgment for the defendant, even though it was quite clear it was an infringer, but just on the misuse proof, and the court continued:

> "If, therefore, the district judge was right in the conclusion that it was established as a matter not of fact but of law, that is, by undisputed evidence, and the inescapable inferences to be drawn therefrom, that the plaintiff had been"—that is the patentee—"and still [fol. 1331] was misusing its patent, the judgment ought to be affirmed without prejudice, of course, to the plaintiff's right to again sue when it can show that it has purged itself of wrongful uses and practices."

We urge, sirs, that it has been found by two Supreme Court decisions that there has been a misuse of these patents. And we urge and shall urge in the course of my argument that as a matter of law U.S.G. has not purged itself of this misuse and could not have purged itself of that misuse until this final decree was signed. And when that final decree was signed for the first time you can say that there was a purge, a liability for royalties re-arose, but anything that had come before that final decree was signed was under the doctrine of this case and a long line of cases held to be uncollectible.

Now the similarity between the Hartford Empire case to which I have alluded a number of times, and this gypsum case—we have pointed out in great detail in our belief. They are almost the same, so far as the misuse is concerned, in that they misuse the patents to accomplish an aggregation of restraints so as to regulate and regiment an entire industry.

The Supreme Court said that about the Hartford Empire case. And the Supreme Court said it about the U. S. Gypsum case. And in the Hartford Empire case the decree enjoined the enforcement of the patents for any time prior to the entry of the decree.

[fol. 1332] And in the U. S. Gypsum case, which was found to cover the same kind of misuse, we are urging Your Honors

to make a similar decree to enjoin the enforcement of any suit prior to the entry of the decree.

When Your Honors come to examine the second U. S. Supreme Court opinion you will find that it said specifically that the restraints in this case were very similar to those in the National Lead case. It said that this case was at least on a par with the National Lead case. And in the National Lead case, as Your Honors will find on examining it, they did what we are asking Your Honors to do in this case, namely, enjoin the prosecution of any infringement or royalty action before the date of the decree, so that there can be no doubt in my mind, and I am sure there will be none in Your Honors', that if this case in Iowa had been brought—if this case in Iowa had been in existence at the time that this court signed its decree that it clearly would have enjoined the action in Iowa. It must have enjoined the action in Iowa if it found as it did this extensive misuse and absence of purge.

And, threfore, as I shall say later, what we are asking Your Honors to do is to do now what I am sure what the court would have done had these suits been brought in Iowa at the time.

At the time this decree was signed, what they were thinking about then was only about actual suits on these licenses, actual claims under the licenses. And they held that the licenses were null and void and, therefore, not actionable. [fol. 1333] Now, however, as we now see U.S.G. is not only claiming under the licenses which we think flies in the face of the decree, but it also seeks to recover for infringement. And we say to Your Honors now that it becomes clear that what U.S.G. has in mind is to sue us as infringers. Then Your Honors should do now what the court would have done had such an action been in existence at the time that this decree was signed.

[fol. 1334] In other words, we say that the changed circumstances, if nothing else, and the cases hold that in such cases you can implement your decree; that the changed circumstance here is that now there is a suit pending which claims we are infringers because we have not paid the royalties, and we urge that Your Honors should do now what you would have done had that suit been in existence at that time, namely, to enjoin.

With respect to this infringement and misuse, U.S.G.'s contention is that there was not any misuse at all within the framework of Hartford Empire or National Lead, that it is not the same as the Hartford Empire case; that the facts are very different and it based its entire case with respect to this by saying that the only facts that were proven in this case was not the misuse that we claim, but merely the illegality of the price-fixing provisions in these licenses which dealt only with patented board. And it says that the fact that that is so is proven by the following.

Your Honors will recall that at the time of the formation of the first decree by this court which was later enlarged, Judge Bromley on behalf of U.S. Gypsum, made a proffer of proof and stated, "We offer to prove that there was no plan to regiment the industry. We offer to prove that there was no plan to eliminate jobbers or to regulate the production of unpatented products; that there was no plan to fix prices on unpatents products; and that there were no restraints of any kind of unpatents products; and [fol. 1335] that the only illegality that was committed was that we sought to fix the prices on patents board, and that was done by a number of licensees."

Their entire case is based on these two misconceptions. The first is that the only illegality found consisted of a plurality of price fixing of patented gypsum board, pursuant to separate lawful license agreements. That is patently unsound, because the Supreme Court said twice that the agreements were only a part of a larger conspiracy, of a large regimentation consisting of these hundreds of bulletins which not only restrained but monopolized trade in all the gypsum products, so that it is legally unsound that the only illegality found was the illegality of plurality licenses.

And yet Your Honors will find when you come to read the U.S. Gypsum brief that that is basic to their entire argument.

The second basis to their entire argument is a factual misconception, namely, that the accepted facts in this case and, therefore, the controlling facts are those set forth in the proffer of proof. That is not so.

The controlling facts in this case are the facts which were found by the Supreme Court in its second opinion and

which were set forth by the Supreme Court succinctly in the second opinion. And it shows very clearly that they did not accept the proffer of proof as the accepted facts or even as to true facts. The facts as found by the Supreme Court were very succinctly stated.

[fol. 1336] I would like to discuss and just point these out to Your Honors in the second Supreme Court opinion.

The second Supreme Court opinion pointed out what the actual violations of law were. And I will come to that after I have discussed the first court opinion, if Your Honors please.

But they made it very clear that the facts accepted in their opinion were not the facts as set forth in the proffer of proof by Judge Bromley. And it must follow that they did not accept those facts, because if the facts contained in Judge Bromley's proffer of proof had been accepted, then this litigation would have gone the other way, because Judge Bromley offered to prove that none of these things which were found by the Supreme Court to have happened actually did happen, and if those had been accepted as the facts in this case, then the motion for summary judgment should have been denied rather than granted, and the decree entered by the District Court should not have been enlarged as it was by the Supreme Court.

But U.S. Gypsum contended this same thing, and that is the reason that we go into such detail about this in our brief. They contended—they made this same contention at least five times during the course of this litigation before this court and before the Supreme Court, namely, that the only illegality was this plurality of price fixing licenses, and in each of those instances the court overruled them and said, that is, with the exception of the first decree, the first judg-

[fol. 1337] ment of this court which was later reversed—the courts continually overruled this contention and pointed out that there was not just price fixing of patented gypsum board which was involved, but that there was a complete regimentation of the industry, that the industry was completely organized in all of these various ways that I have spoken of. So that the illegality was not this narrow price-fixing one, but an illegality which permeated the entire industry, which regimented the entire industry.

And in spite of this, U.S.G. still maintained as the basis

of its argument here that it did not misuse its patents, and that it was not guilty of the same misuse as the Hartford Empire case; still is here fighting the same battle which it fought on five different occasions, as we outlined them in the brief. And each of which was decided against them by the court, but they are here now pointing out, urging that they are not subject to the misuse doctrine, because the finding against them was a very narrow, limited one, instead of the vast finding which the Supreme Court in its first and second opinions made with respect to this regimentation of the industry.

After the complaint had been dismissed by this court, as I stated, and I should point out to Your Honor that this complaint was not based on any narrow price-fixing violation—this complaint was based on all of the bulletins that I have talked about—the complaint complained of price fixing of gypsum board, whether it was patented or [fol. 1338] unpatented—it complained of raising prices for plaster and for all gypsum products—it included in the complaint the elimination of jobbers and it covered all of the misuses which I have described and which were described in the Supreme Court opinion.

When this court after the first trial dismissed the complaint it made findings of fact which bore out what U.S.G. is now contending. And it was contrary to the contention of the Government. And it made findings to the effect that there was no agreement to raise the price of unpatented board, no agreement to standardize board, no agreement to eliminate open-edge board, no agreement to eliminate jobbers. And its most important finding, which was referred to in the opinions as Finding No. 118, was as follows: The court found that the evidence fails to establish that the defendants associated themselves in a plan to blanket the industry under patent licenses and stabilize prices as charged by the Government. On the contrary, there was no such plan or enterprise to blanket the gypsum industry with patent licenses and stabilize prices.

In other words, U.S.G. won a complete victory in the first case in these findings.

On appeal to the Supreme Court of the United States by the Government those findings were reversed. And I repeat, the reason that I go into this is that those very

findings of the District Court which were reversed in the Supreme Court formed the basis of Judge Bromley's prof-
[fol. 1339] fer of proof when it came back after reversal, and the question of summary judgment arose. And they are exactly the things which U.S.G. is urging now in its brief.

The opinion of the first Supreme Court was divided in five parts, and they are numbered in five parts. This is the first opinion which reversed the District Court here.

The first part of the opinion sets forth in great detail what was contained in these bulletins and how U.S.G., starting in 1926, began to regiment this entire industry by means of this patent which closed the edge of the board, and by means of two other patents, the so-called Haggerty patent and the Roos patent. The Roos patent is the one under which it is now suing us.

It shows very clearly, this first Supreme Court opinion does, how U.S.G. began in 1926 and completed in 1929 the regimentation of this entire industry by means of these license agreements. And then it showed that in Part 2 it ruled that the Government is free to show that the patent itself was invalid. That is not important here.

In Part 3 the Supreme Court found the conspiracy in the following language: The industry-wide license agreements entered into with knowledge on the part of all with the control over prices and methods of distribution through the agreements and bulletins were sufficient to establish a prima facie case of conspiracy.

Then it went on. It held that the General Electric case
[fol. 1340] on which U.S.G. relied here in the first Supreme Court case and here in this District Court did not protect this kind of misuse of a patent.

And then it proceeded to consider the findings which had been made below. And it said that the trial court had made certain findings of fact and unless we reversed them, why, then, U.S.G. will be able to obtain the fruits of its unlawful monopoly.

So it proceeded to reverse the findings which had been entered in by this court as erroneous. It reversed the finding made here, and held that the defendants had conspired

to eliminate the production of open-edge board. They had no patent on open-edge board.

The court found that even though they did not have a patent they had conspired to eliminate it. They found that the defendants had acted in concert to eliminate jobbers. They found that the defendants had stabilized the price of unpatented plaster, and on unpatented gypsum products.

And it concluded in Part 5 that on the undisputed facts, in spite of the patents, and in spite of the fact that they alleged, U.S.G. did allege that it was merely protecting its patents, that the defendants had plainly violated the Sherman Act.

The court said they had done it by controlling prices and distribution in unpatented gypsum board as well as patented gypsum board; that they had completely regimented, monopolized the industry. And as they put it, that all [fol. 1341] former competitors had acted in concert to restrain commerce in an entire industry under patent licenses in order to organize the industry and stabilize prices.

And then it said, "This is a violation despite the assumed legality of each separate patent license for," as it said, "lawful acts may become unlawful when taken in concert."

U.S.G. has seized upon this language assuming despite the assumed legality of each separate patent license, and tries to argue in its present brief that in some way these licenses are legal, because the Supreme Court said, "We would assume the legality of each separate patent license."

Well, now, this is a sentence which is ripped entirely from context, because what the court said right following that was, "That lawful acts may become unlawful when taken in concert."

Each of these licenses, if there had only been one, would have been lawful under the General Electric case, but what the Supreme Court said was that when you get an entire industry, you give them each the same agreement, and each one knows that the rest of the industry is doing it, and each one knows that everybody's price is going to be fixed, then you have gone far beyond the General Electric case, and you have violated the antitrust laws de-

spite the assumed legality of each separte patent license. [fol. 1342] And I repeat, USG is trying to argue that that language justifies their contention that the only illegality found here was the fact that many licensees had signed the same license. But the illegality found here in the Supreme Court, in its first Opinion, was that all of these other things had been done by bulletins which regimented and organized the entire industry.

After the Supreme Court in its first Opinion had reversed the District Court and remanded it down here for further proceedings, as I say, there was argument here and a proffer of proof, and that proffer of proof offered by USG was about the same as the findings which had been reversed.

Judge Cole: What was the date of the filing? When was the proffer of proof filed?

Mr. Rosenman: In 1949.

This came back here for remand in 1949, and the motion for summary judgment was made in 1949. USG made its proffer of proof in 1949.

Mr. Bromley: That was June, 1948, if I may correct it.

Mr. Rosenman: I am sorry; it was 1948.

The proffer of proof was made in 1948. The argument was on June 13 and 14 of 1948, and the proffer of proof was made in 1948. The memorandum, which I stated was submitted by USG, was also in 1948. This was after the first reversal by the Supreme Court.

[fol. 1343] That proffer of proof, as I say, was, on the whole, the same as the findings of the Court, namely, they offered to prove that there was no plan to blanket the industry; that there was no plan to eliminate open-edge board; that there was no understanding to eliminate jobbers; no understanding to stabilize prices of plaster or any unpatented products; and that all of the acts taken by USG were merely to protect its lawful patent.

The District Court heard argument and accepted memoranda on this motion for summary judgment, and it granted summary judgment in spite of the proffer of proof. The language of the Court is cited in our brief.

The Court took the position that under the Supreme Court Opinion that even if the facts alleged in their proffer of

proof were proven that it would not interfere with the granting of summary judgment because of the language of the Supreme Court in its Opinion.

Here, too, USG argued that the only illegality was the price-fixing of the patented gypsum board and the plurality of licenses, and that was argued at great length, and excerpts from that argument submitted to Your Honors, and the Court ruled to the contrary.

After it had ruled to the contrary, it asked various parties to submit proposed decrees, and decrees were submitted, and memoranda were submitted by the various parties on the decrees and on the findings and conclusions which [fol. 1344] were submitted to this Court. Those memoranda and those findings and conclusions submitted by each side are before the Court now.

U. S. Gypsum contended again in its memorandum that the District Court had decided summary judgment only because the defendants had become parties to a combination by plurality of licenses and not because of any conspiracy extrinsic to the plurality of licenses.

That is a quote from the memorandum of USG.

The Government, on the other hand, contended that its decree was based on the entire conspiracy, and not only on the fact that there had been a plurality of licenses, but because of USG's contention. USG urged that the terms of the Government decree were improper because there had only been a narrow declaration of illegality. The Government's decree was based upon the entire proof of regimentation.

The difference between USG and the Government at that time is still the difference between USG and us insofar as misuse is concerned.

USG still insists that its illegality had to do only with licenses on patented board, and we refer to the Supreme Court Opinion to show that it had to do with the entire regimentation.

After the argument briefs were submitted again, and it was in this memorandum submitted by U. S. Gypsum on July 23rd, which is on file here and of which we have extra [fol. 1345] copies, USG at that time devoted itself exclusively to the differences between what it was urging and

what the licensees were urging, and it urged in that memorandum that the compulsory licensing provision should be narrower than the Government was urging, and it urged that there should not be a declaration that these patents were null and void but that the declaration should be merely that the price-fixing provisions were null and void.

Judge Stone: You mean to use the word "patent" or "license"?

Mr. Rosenman: I mean license. Thank you, Your Honor.

They urged that the license agreement should not be declared null and void, but that only the price-fixing provision should be declared null and void, and they stated very clearly what they understood null and void would mean. They pointed out that the purpose of the licensees in urging that there be a declaration that the license be null and void was that the royalties should not be paid.

So that it is clear that this Court was apprised at least of that, of USG's understanding of what null and void would mean.

The Government itself on the next day submitted a memorandum in which it asked that its proposed decree which up to that point did not have the words "null and void" in it, but it urged that its proposed decree be amended so as to include the declaration of null and void, and with that the [fol. 1346] Court took it under consideration and on November 7, 1949 made its first decree in favor of the plaintiffs.

In that decree, which was later superseded by the second decree—but in that decree of November 7, 1949—that is what led me astray to say 1949 instead of 1948—the decree was on November 7, 1949—this Court stated that there had been a violation of Section 1 and Section — of the Sherman Act; that there had been restraint and monopoly; and it directed compulsory licensing; and it made the declaration for the first time that these license agreements were illegal, null and void, and that they were not just the price-fixing provisions that were null and void but that the entire license agreement was null and void.

So that this was a second decision against USG's contention that only the price-fixing provisions are null and void.

As I stated, from that decree there were two appeals.

USG appealed, and while the record is not clear, we think that it was as a result of USG's motion that this decree was stayed, pending the appeal, so that this first decree never became effective. We know that it was stayed.

I think from reading the record it can be inferred that it was on application of USG that the decree was stayed pending appeal.

So USG appealed and the Government appealed.

[fol. 1347] USG claimed that it should be allowed to prove its proffer of proof.

The Government claimed that this decree of the District Court was not broad enough to accomplish the purge which it was seeking to obtain and which the first Supreme Court Opinion said was necessary.

Now, it came up finally to the Supreme Court in 1950, to this second Opinion, on the basis of which this final decree was finally formulated.

The Supreme Court Opinion was in two parts. In the first place, the first part, it held that these price-fixing provisions and knowing concert with each other throughout the entire industry clearly entitled the Government to a decree, and the fact that the defendant had offered to prove that there were good intentions and that the purpose of the practices was merely to protect its patents were not enough, as it said in quotes:

> "To make legal concerted action under patents to stabilize prices."

And then it said:

> "Even accepting the underlying facts in defendant's proof by offer is true, the Government is still entitled to a decree."

USG has seized on that phrase, as Your Honors will see when you come to reading the brief as the foundation for its [fol. 1348] argument, that there was no misuse here, because the Supreme Court accepted the underlying facts in defendant's proof to be true.

The fact is that the Supreme Court did not accept the facts as alleged by USG in its proffer of proof. It did not accept the facts as alleged, even though it may have ac-

cepted what it calls the "underlying facts" or "the evidentiary facts."

For example, USG said that when it sought to fix the price of plaster or some unpatented product, that all that it was doing was attempting in good faith to protect its patent monopoly; that there was no plan to regiment the industry with respect to unpatented products; that all that it was doing was seeking to protect its own patents; and the Court in its Opinion, as I said, pointed out that the actual underlying facts of what it did, namely, sending out bulletins saying that:

> "You cannot charge more than a certain amount for plaster; you cannot give rebates on plaster,"

accepting that as true, it still does not justify this proffer of proof in its conclusions and intentions, namely, that although we did that, we did not intend to regiment the industry; we merely sought to protect our own patents—what the Supreme Court was saying:

> "Even if we believe it is true, that that is the reason you did it, although you had good intentions and good [fol. 1349] motives, we reject that conclusion as being immaterial and irrelevant; that if the facts are that you did things, you did certain things which resulted in regimenting and organizing the industry, we will hold that those should be barred; that those should be banned as a part of this conspiracy to regiment the industry, even though you had the best of motives and the best of intentions."

And that is what we urge the Supreme Court meant when it said:

> "Accepting the underlying facts in defendant's proffer of proof as true,"

that there is still a plan to regiment, that there is still an actual regimentation of the industry, even though you now say that you want to prove that you did not intend to do it. In other words, your intention and good motives are entirely irrelevant.

In this Opinion it is quite clear that it did not accept the

proffered facts as true, because it points out—it actually proceeds to enlarge the decree which the Court below had made. Quite obviously, if it was going to accept those facts as true, it would not have enlarged the decree below, but it did enlarge the decree below to extend the decree from the patented board to which the decree below was limited to unpatented boards.

[fol. 1350] It enlarged the injunction to cover all gypsum products.

It enlarged the injunction to cover jobbers, and to cover the basing point system.

And it insisted upon compulsory licensing. In other words, the basic erroneous conception of USG that the Supreme Court in its second Opinion accepted these facts as true is very clear from the Opinion itself, because it sets forth the six facts which it says were proved below.

[fol. 1351] In other words, the second opinion of the Supreme Court said that the defendants constituting all former competitors in the industry acted in concert to restrain commerce in an entire industry. It found that as a fact.

It found as a fact that the price of gypsum board was stabilized; that is, the patented gypsum board and unpatented gypsum board.

It found as a fact that the production of open-edge gypsum board was restrained by requiring a royalty on it.

It found that prices were fixed in the sale of plaster and miscellaneous gypsum products.

It found as a fact that jobbers were eliminated.

And it found as a fact certain trade practices were standardized contrary to the anti-trust laws.

So that it found as actual facts. And what I have just enumerated as the facts will be found in so many words in the Supreme Court's second opinion.

It found those facts, each one of which contradict the facts proffered to be proved by U. S. G. So that you cannot say that the Supreme Court accepted the facts contained in the offer as the basis of its decree. Quite the contrary. It rejected the facts as offered to be proved and found the facts as I have stated.

On the basis of that we say, and the Supreme Court says that the misuse was just as bad as it was in the National

[fol. 1352] Lead case. And that the same remedy should follow. And in spite of that fact we still have before us the contention by U. S. G. that there was no misuse of these patents.

Coming to the third point, if the Morton Salt doctrine means anything—and the Morton Salt doctrine is quite clear that in a suit between private litigants if there is a contention of misuse—if a patent has been misused, a man sued for the misuse has the right to set up that misuse to avoid the payment of royalties. We contend that that misuse has been proved here. It has been proved by the finding of misuse twice by the Supreme Court of the United States and by this decree. We think, as a matter of proper administration of justice, instead of having these defendants raise the defense of misuse in these various courts and have them tried all over again, although I have not completed enough research and it is immaterial here, but it may be that if we are really relegated to try the defense of misuse in Iowa, that we may have to try this whole case over again, that we may have to make this whole record over again in order to show misuse—if that is so, why it would seem to be the proper administration of justice to have this court undertake to pass upon that misuse and purge question as between these private litigants, rather than to have this multiplicity of suits in three jurisdictions where the holdings may be diverse, depending upon the view of the law which the particular District Judge takes in that case.

[fol. 1353] So that even if your Honors do not find that on the face of the decree the suits should be barred, and even if your Honors do not find such misuse as to warrant you in implementing your decree by an injunction similar to the Hartford Empire and National Lead cases, then we urge your Honors to pass yourselves upon this question of misuse here in this court, instead of relegating us to three different courts to try it.

The fact is, and we urge that this court will find as a matter of law that there was no purge, in this case; that the differences between the first 1949 decree and this second decree are so great that no one can say that there was a purge as a matter of law until this second decree was

signed, because the Supreme Court in its second opinion pointed out time and again how much more was necessary than this first decree in order to open up these patents and to remove the misuse.

We think that it is clear that as a matter of law, U. S. G. cannot show that there has been any purge at all since the original date that the Supreme Court held that these patent licenses were illegal.

U. S. G. does depend upon five facts which it urges in its brief as constituting a purge. And in our brief we have tried to show that these facts do not in law constitute a purge.

It first claims that in 1941 it sent a letter to us, to its licensees, claiming that no new price-fixing bulletins will be issued.

[fol. 1354] We claim, and the cases show, that there is no purge by a mere statement that we will not fix prices in the future; that the only purge would have been if they had actually cancelled the license agreements, so that they no longer had the power to fix prices. The fact that they sent us a letter saying that they were not going to fix prices means that the next day they could have changed their mind and fixed prices. So that that could not possibly be a purge.

The second fact that they say constitutes a purge is that they made an offer of an unobjectionable license at the time of the first signing of the decree in 1949. They never made such an offer. They said merely that, "If you will approve we will offer these to licensees." And as a matter of fact, they then stayed the decree, so that that license could never have become effective.

And in the third place it was not an unobjectionable license, because it is very different from the license which they are now compelled to issue under the decree of this court. So that the fact that they said they had submitted a decree for approval, I mean, submitted a license for the approval of this court in 1949, cannot be urged as a purge.

They also claim a rescission in 1948. There is no proof of that, but even if there were, the fact is that they still claimed by their suit in Iowa that they are still asserting the validity of these license agreements. Their counts 1 [fol. 1355] and 2 and 3 and 4 indicate that they do.

They say that this first decree of 1949 might be a purge, but the obvious answer to that is that it could not have been a purge, because the later decree was so greatly enlarged by the Supreme Court that the first decree simply cannot be considered a purge.

They also say that the order of the Supreme Court, the intermediate order, forbidding price-fixing, might be a purge. And the answer to that is that the Supreme Court thereafter enlarged the decree so much that its idea of what a purge was, was entirely different from merely doing away with the licensing price-fixing provisions.

Just a minute on jurisdiction, because the claim is made by U. S. G. that this court does not have jurisdiction.

Judge Stone: We are so near the time that we probably should recess. It might be better to take up that subject later, so that you can carry it through.

Before we take the recess, there is one matter that the court wishes to call to the attention of counsel for Certain-teed, and that is this: The main brief and the reply brief for that company have no indices, either of subject matters to be discussed in the brief or of authorities. It is a little difficult for the court to properly handle and cross-reference briefs which have not that help in them.

Mr. Miller: We will supply it for the court by tomorrow [fol. 1356] morning.

Judge Stone: That will be entirely satisfactory. Both volumes of indices.

Mr. Miller: All right.

Judge Stone: Mr. Marshal, you may recess the court until 2:00 o'clock.

(Whereupon, at 1:00 o'clock p. m., a recess was taken until 2:00 o'clock p. m., of this same day.)

[fol. 1357] AFTERNOON SESSION

2:00 p.m.

Judge Stone: Judge Rosenman, I think you were approaching the subject of jurisdiction.

Mr. Rosenman: Yes, sir.

ARGUMENT OF BEHALF OF NATIONAL GYPSUM COMPANY

By Mr. Rosenman—resumed

Mr. Rosenman: If Your Honors please, just as we have divided the theory of our case into three points, we feel, and in our brief we show with respect to each of those points, that this court has jurisdiction, and we would not presume to spend as much time as we did on jurisdiction because we almost would take it for granted, except for the fact that U.S. Gypsum has spent a great deal of time on questioning the jurisdiction of this court to administer the relief which we request.

Certainly so far as our first theory is concerned, that this court has jurisdiction and should compel obedience to its decree, it would seem to be almost elementary that it has. I think that any court, any equity court, having made a decree, has the power to enforce compliance, and I should think that this court, if at some time it had read that this litigation had been started in Iowa, and remembered the fact that it had declared these agreements null and void, it would be an elementary thing for it to have the marshal call the lawyers in and have him ask them, "What is going on? In spite of our determination that these licenses [fol. 1358] were null and void, you are still suing on them in Iowa."

Certainly the fact that we have a defense in Iowa alleging that the licenses are null and void should not bar this court from exercising its elementary power of seeing that its own decree is obeyed. We think that the suit in Iowa, at least so far as the causes of action alleged there are concerned—that those suits are in a sense non-compliance with the decree, and to that extent if the court is of the same opinion, it certainly has the power and the jurisdiction to see that is decree is respected and enforced, and that its integrity is maintained, and we think that maintenance of the integ-

rity of this decree requires that U.S. G. cease its operations and litigation in Iowa and in New York and in New Jersey.

With respect to our second point, namely, that even if the decree is not being, in terms, flouted in Iowa, still this court has the power to implement it in order to effectuate its basic purpose, and our brief has shown a number of cases which have applied various tests to the power of a court to implement its decrees so as to effect its basic purpose. That is particularly true where circumstances have changed, and the test seems to be whether the request for modification in the decree, where circumstances have changed, has been for the purpose of effectuating or thwarting the basic purpose of the decree.

In the Armstrong v. DeForest Radio case, which is discussed at length in our brief, the question there was whether [fol. 1359] the plaintiff had the right to come to the court and ask for a supplemental injunction to reach a device which was not in existence at the time of the original decree, and the court there held that such supplemental decree was possible, not only possible, but proper, and pointed out that that was not amplifying in any sense the original decree, but was, and I am quoting "was to specify and apply the injunction to actions and objects non-existent when decided."

Now, the thing that was nonexistent here when this original decree was signed was this claim of infringement. There never had been a claim of infringement made, and there was no necessity to include that in the decree. We think that by fair intendment it is included in the decree, but if Your Honors disagree with us, as I say, we ask you to implement it and certainly jurisdiction exists by the fact that now it appears that it is necessary in order to effectuate the basic purpose of this decree, that the action for infringement be enjoined, and we are asking Your Honors to do it, and these cases, like Armstrong v. DeForest Radio, and Hughes v. The United States, seem to make it quite clear that Your Honors can take cognizance of the present circumstances and implement your decree by a provision that the infringement suit in Iowa should be stopped.

As I say, that is not amplifying or expanding. That is merely implementing what you have already decided, namely, that you want to dissipate the evil effects of the decree,

[fol. 1360] and the only way you can do it is by forbidding these pre-decree royalty suits.

The argument in opposition to this is chiefly that National has no standing to sue here, that this action was an action by the Government against a number of licensees, and that only the Government could come in with this request. We urge upon Your Honors that that is an untenable position.

In the first place, the decree itself, in Article X, provides that there is a reservation of jurisdiction for any party, as I emphasized when we were going over the decree. It is not only the United States Government, but any party has the right to apply to Your Honors for implementation of the decree. And as a matter of fact, in this case the Government itself has urged that this court has jurisdiction, and it certainly does not take the position that it alone has the standing to come in and ask for implementation of this decree.

Judge Worley: When you say "implementation," just what do you mean by "implementation"?

Mr. Rosenman: To provide a new means or an additional means of carrying out the original purpose of the decree, the original purpose being, as the court said, to cure the ill effects and to dissipate it. We think that stopping a royalty suit and making it clear that a misused patent does not give rise to a cause for infringement, as the cases hold, that is one of the most effective ways of breaking up a conspiracy.

[fol. 1361] If you were to tell members of a conspiracy, licensees, that you refuse to abide by this unlawful conspiracy, if you refuse to pay royalties and carry out the provisions which laid the basis for the royalty, that that is the best way of breaking up the conspiracy, and we think that implementation in this form, if carried out by all the courts, would be the best means of breaking up antitrust conspiracies of this kind.

Judge Worley: Implementation is, then, synonymous with all of Article X, modifications, orders, and so forth?

Mr. Rosenman: Yes. We think that Article X includes implementation, but we take the position that even if Article X were not in the decree, this court has equity powers reserved in it to do everything that Article X says.

Judge Worley: Thank you.

Mr. Rosenman: We cite a case which we think is on all

fours, Terminal Railroad v. The United States, where a decree was obtained in antitrust against several groups of defendants, and one group of defendants in subsequent years started a contempt action against another group of defendants, and the court held that there was jurisdiction in the court to consider that action. The fact that they were both defendants, or that they were all defendants, did not mean that in a later controversy between the two sets of defendants, this court has been deprived of jurisdiction, and we think the same situation is presented to Your Honors here, that the fact that it is a defendant or a number of [fol. 1362] defendants which is seeking to invoke the jurisdiction of the court should not be a bar, as U.S. Gypsum contends.

We point out in our reply brief also that the various cases cited by U.S. Gypsum on this point are not applicable, and I do not wish to take the time to go into them in detail. We feel that with each of our points, namely, that this decree itself is clear on its face that it has been violated, and secondly, that if it is not clear that this court can implement it, and in the third place, that as between private litigants, this court can step in in order to prevent a multiplicity of suits and a possible diversity of results, with respect to all of these different theories of our petition here, this court has ample and complete jurisdiction.

If Your Honors please, I stated that we had several copies of this memorandum which I would like to submit. These are actual copies of the memorandum. In addition to that, as Your Honors can well see from my argument, these decrees are quite complicated in their development, and so are the findings, and we have prepared for the convenience of the court, and have served on the other side, some printed material which carries all of these decrees from the very beginning to the very end in tabular form, and which also refer and quote the findings which were submitted by the plaintiff and which were found by the District Court and which were contained in the U.S. Gypsum proffer of proof, and what the two Supreme Courts did with respect [fol. 1363] to these proposed findings, and I would like to submit these to Your Honors. They are quotations from the actual record, and I am sure that if there is any mistake, which we have been very careful to avoid, Judge

Bromley will call them to your attention. I think they are a reflection of the findings from court to court, including the proffer made by U.S.G.

With respect to the findings, and I think they will help the court in following the development of the decree as well as the findings, I would like permission to submit them now to Your Honors.

Judge Stone: Certainly.

Before we get too far away from it, Judge Rosenman, would your argument as to implementation concerning infringement also apply to the quantum meruit count of the petitions?

Mr. Rosenman: Yes, sir. We think that the quantum meruit count is even more clearly barred by the face of the decree, but if for some reasons Your Honors do not agree with that contention, then we urge that in order to implement at least the finding of nullity and voidness as well as misuse, Your Honors should issue an injunction against those two causes of action, also.

Judge Stone: That is, misuse would void any recovery in any form on any legal theory?

Mr. Rosenman: That is what the cases hold, Your Honors, and that is what National Gypsum and the other licensees urge here.

Thank you.

[fol. 1364] Judge Worley: May I ask one question? I am not quite clear on the analogy you drew between the passenger in a taxicab and this case. The passenger still owes him even though he has run red lights and committed other misdemeanors?

Mr. Rosenman: Yes, sir.

Judge Worley: By that you mean that the licensor of a patent is entitled to quantum meruit?

Mr. Rosenman: He is entitled——

Judge Worley: Is he entitled to be paid by the licensee?

Mr. Rosenman: In the taxicab situation?

Judge Worley: Yes.

Mr. Rosenman: We say that he is. In the taxicab the man who owns the taxicab is entitled to be paid by the passenger if he gets him to his destination unharmed and with no injuries and no accidents, and we think that that is different from the case of a patent, in that if you have a

patent, and the licensor of the patent and the licensee, if they do not commit any violation of law then the licensor is entitled to his royalties. If, however, the licensor, with or without the licensee, commits a violation of the antitrust laws, we urge that the courts have held that that violation is so flagrant a violation of the public policy of the country and the public interest, that even though the licensee gets the benefit of the patent, it is forbidden to pay it, not as a matter of favor to the licensee but as a matter of protecting the public interest.

[fol. 1365] Judge Worley: Thank you.

Mr. Rosenman: And we urge and have cited cases which sustain that conclusion.

[fol. 1366] Judge Cole: Is the amount involved in the Iowa case subject to proof, assuming, now, that you go back to the trial of that case?

Mr. Rosenman: No, it is not.

Judge Cole: Is that conceded?

Mr. Rosenman: I am informed by my associate, Mr. Finck, the regular counsel of National Gypsum, that that is in dispute. The amount is in dispute.

Judge Cole: It is in dispute?

Mr. Rosenman: Yes. As a matter of fact, even the validity of the patent is in dispute there. But I did not think that those were material to the presentation of my argument. But we have denied the validity of the patent under which they are suing us in Iowa, and I am informed that the amount of board sold would not admit the amount claimed in Iowa.

Judge Stone: Do you draw any distinction, Judge Rosenman, in the legal effect of the expressed provision in Article X of quoting modifications and the general broad power of a court of equity to change its decree to effect the purposes, so long as it does not exceed certain limits which some of the decisions of the Supreme Court have laid down?

Mr. Rosenman: I draw no such distinction, your Honor. I think that both under Article X and under your Honors' general equity powers, you can do all of the things that are set forth in Article X.

[fol. 1367] Judge Stone: Thank you.

May the court ask each counsel as they start to address us to give his name, and so forth?

Mr. Miller: Yes, sir. My name is Norman Miller, of the law firm of Clausen, Hirsh and Miller, representing Certain-teed Products Corporation, one of the defendants in the anti-trust action, and a petitioner in this court.

Argument on Behalf of Certain-teed Products Corporation

By Mr. Miller

Mr. Miller: May it please your Honors, I will not attempt to go over any of the matters that Mr. Rosenman so ably covered. Under the arrangement we have made between us with regard to how our time was to be divided, it was agreed, and I am now going to address this court with regard to the question of quantum meruit.

Mr. DeWitt, who will follow me on behalf of Newark, and Mr. Rippey for Ebsary, also, will cover the question of misuse as applied to the infringement and the general summing up.

The starting point with reference to the question of quantum meruit, in our opinion, is the provision of Article IV of the decree, which says that each of the license agreements listed in Article II is adjudged unlawful under the anti-trust laws of the United States, and illegal, null and void. There are no exceptions contained in that language. [fol. 1368] There is no statement in that language with reference to the narrowness of any illegality or any limitation upon that illegality or any limitation upon the words "null and void."

That decree, and that provision of the decree, was entered at a time when the Supreme Court of the United States had determined the cases of Katzinger Co. v. Chicago Metallic Manufacturing Company and McGregor v. Westinghouse Electric Company, both of which are cited in our brief and in the briefs of the other petitioners.

In those two cases, the Supreme Court had determined that unlawful price-fixing provisions in a patent license agreement were not severable from the remainder of the contract or license provisions, and that when you struck

down the license, as they did in those two cases, you struck down the price-fixing provisions as well.

Thus as a result of Article IV, based upon the opinions of the Supreme Court in the first and second cases, the court struck down the entire license agreement between the parties and the entire transaction which gave rise to that license agreement. That included any price arrangement or any royalty recovery that the plaintiff, the licensor, was entitled to get.

Now, in effect, U.S.G., United States Gypsum Company, in its brief has recognized that if these license agreements were illegal, to use their phrase, were inherently illegal, they would have no right to recover under the theory of [fol. 1369] quantum meruit. They say at page 93 of their brief that if it can be demonstrated, as here, that the contract sued on was not inherently illegal, or, as the court stated in Bruce's Juices, a case referred to by Mr. Rosenman earlier, that the suit did not have as its object and effect accomplishment of illegal ends which would be consummated by the judgment sought, then the doctrine of quantum meruit would not be applicable, but that if it was inherently illegal, then they admit that the doctrine of Bruce's Juices would apply, and they could not recover on quantum meruit.

In Bruce's Juices, the United States Supreme Court said very clearly, "The law as established by this court is clear that transactions under a contract void for illegality will not sustain quasi-contractual or other rescissionary relief any more than an action upon the contract."

Now, there is nothing said in that quotation—and I read the quotation from the court's opinion—there is nothing said about inherent illegality. It says "illegality." There cannot be, to my mind, any clearer use of the English language than to say that a contract is illegal, null and void, which is what this court said despite the vehement protests of U.S.G., and despite their efforts to have the decree eliminate that provision and contain a provision only saying that the price-fixing provisions were improper and should be eliminated.

They knew, as evidenced by their memorandum, and they knew as any litigant should have known, that when you

[fol. 1370] determine that an agreement was illegal and null and void, you destroy its efficacy for any purpose.

They recognize that that is so, but they seek to avoid the effect of it by drawing a distinction between the language of this case as applied to the facts of this case and the language of the Supreme Court in Bruce's Juices, by using the word "inherently," and saying that this illegality as found by this court's decree did not amount to an inherent illegality.

It is obvious from the long discussion that Mr. Rosenman made in his pinpointing of the various matters decided by the Supreme Court in both the first and second opinions, that there could not have been any other kind of illegality involved when they struck down these license agreements and held that they were illegal, null and void.

The Supreme Court said that the basic purpose of its opinion, and the basic purpose to be aimed for by the trial court when it found in favor of the plaintiff, the United States Government, in an anti-trust action was as follows: "To compel action by the conspirators"—and I am now quoting from the Supreme Court's second opinion—to compel action by the conspirators that will so far as practicable cure the ill effects of the illegal conduct and insure the public freedom from its continuance, the conspirators should be denied future benefits from their forbidden conduct, and the action is not limited to a prohibition of the proven [fol. 1371] means by which the evil was accomplished, but may range broadly through practices connected with the acts actually found to be illegal."

Now, as Mr. Rosenman pointed out, the illegality found by the Supreme Court, and pursuant to the mandate of which court this court entered its final decree, was not limited to any narrow illegality. The court found five different violations of the Sherman Anti-Trust Act which permeated the entire transaction which was effectuated through these license agreements and which therefore made any recovery in our opinion under those agreements or under those patents or for the use of those patents barred by the language of this court's final decree.

When the court stated that the agreements were illegal, null and void, they were not referring to the papers. They were referring to the transaction between the parties. The

transaction between the parties involved these patents. These patents were the modus vivendi by which they accomplished the conspiracy, combination, restraint and monopolization that the Supreme Court found in two separate opinions had occurred here, and resulted in this final decree, and it seems to me that it is inconceivable that U.S.G. can successfully argue that that language, "illegal, null and void," must have read into it a particular kind of illegality, that there must be something said that it is inherently illegal, in order to avoid the effect of the doctrine of the Bruce's Juices case, which they admit is applicable.
[fol. 1372] Now, the Supreme Court has said that one of the purposes of a decree in an anti-trust action, where a violation has been found, is to prevent the fruits of the conspiracy from being enjoyed. We are of the opinion that the main fruit of the conspiracy was the promise of U.S.G.'s licensees to pay royalties for the protection given by the price-fixing scheme. If U.S.G. were allowed to recover these royalties by these actions it has filed in Iowa, New Jersey and New York, there would be no preventative effect as a result of the decree of this court, and the language of this court to the effect that the agreements were illegal, null and void, would apparently be completely nugatory and have no effect at all.

We submit that it was not intended by this court that such a result should follow. We submit that in our opinion, the language of the decree itself is sufficient basis upon which this court should enter an order enjoining U.S.G. from further prosecuting these actions in Iowa, New Jersey and New York. We believe that the Supreme Court's opinions make it manifest and absolutely clear that U.S.G. had misused these patents to perpetuate in effect this conspiracy and combination, that the illegal conspiracy was only able to be carried out because of the use of the patents, and that that use permeated the entire transaction, and that you need say no more once you have said that the contract and the license agreement employing the use of those patents were illegal, null and void.
[fol. 1373] As the Government stated in its argument to the Supreme Court, it would be *guilding* the lily to add an injunction provision, because it would seem impossible that a defendant against whom an order had been entered hold-

ing the license agreements promulgated by it were illegal, null and void, would attempt to sue upon them. Yet that is exactly what U.S.G. has done here.

Now, if the suit, as we contend, upon the express license agreements cannot be maintained, under the doctrine of Bruce's Juices, which is clear and to which U.S.G. itself subscribes, in our opinion you cannot maintain an action for quantum meruit.

Argument on Behalf of Newark Plaster Company

By Mr. DeWitt

Mr. DeWitt: If the court please, I am Benjamin P. DeWitt, of the law firm of DeWitt, Pepper and Powell. I represent the petitioner, Newark Plaster Company.

The United States Gypsum Company has commenced an action against Newark Plaster Company in the United States District Court for the District of New Jersey. In that action, the United States Gypsum Company, to which I shall *I* refer as U.S.G., seeks to recover from Newark $185,000.

In its complaint in that action, U.S.G. alleges, in the first place, that it is entitled to recover under a certain license agreement, to which U.S.G. and Newark were parties.

In another count, it alleges that it is entitled to recover [fol. 1374] on the basis of quantum meruit, and again in other counts it alleges that it is entitled to recover on the ground that Newark has infringed U.S.G.'s patents.

I am here as a petitioner to urge upon your Honors that to permit U.S.G. to prosecute that action against Newark in the United States District Courts for the District of New Jersey is to make a mockery of this court's decree in the anti-trust litigation about which you have heard this morning.

Your Honors will find in the final decree of May 15, 1951, a list of license agreements. One of those license agreements in that list is the license agreement for the alleged breach of which U.S.G. sues Newark in this action in New Jersey. It relies upon that agreement. It proposes to tell the United States District judge in Newark, New Jersey, that that agreement is a valid, legal and enforcible agreement, and it proposes to ask that judge, if the judge finds

that an agreement has been broken, to award damages to U.S.G. This court in its final decree has said that that very agreement which U.S.G. is going to tell the judge in New Jersey is valid—this court has said that that very agreement is illegal, null and void.

Now, if anybody is going to tell the District Court in New Jersey that when this court made a decree saying that an agreement was illegal, null and void, it really meant that it was legal, valid and enforcible, it should be this court. U.S.G., itself, in its brief, supports only half-heartedly its [fol. 1375] action in New Jersey so far as it is based upon an alleged breach of this agreement.

[fol. 1376] They say in their brief that they included that only in order that the facts might be complete. It baffles me to see and to understand why, to set forth facts, it is necessary to claim as legal an agreement which this court has held to be illegal, null and void.

Now we pass to the second basis upon which U.S.G. seeks to recover $185,000 from Newark in this action in New Jersey. They say, "We are entitled to recover on the theory of quantum meruit."

What this court condemned in its decree was not a piece of paper upon which the agreement was written. What this court condemned in its decree, of course, was the transaction reflected in the license agreement, and having condemned the transaction, which was the basis of the license agreement, it follows that the court, when it said that the agreements were illegal, null and void, did so because the transactions reflected in the agreement were illegal and unlawful.

It follows, therefore, that for U.S.G. to attempt to recover in New Jersey against Newark on quantum meruit is to attempt to convince the court in New Jersey that a transaction which this court found was unlawful in fact was lawful, and will support a claim of recovery.

If in the days of prohibition a landlord leased premises for the sale of liquor contrary to the law, and the lease had been condemned, certainly he could not recover on quantum meruit, because it would have been the transaction that was [fol. 1377] condemned, and not the document which represented the lease. And so here——

Judge Cole: Would that apply if he continued to occupy the premises although the lease was condemned?

Mr. DeWitt: I should think so. I do not see how he could recover when his very act in permitting use of the premises was unlawful. Certainly that is what the Supreme Court said in Bruce's Juices. That is what Williston says in his book on contracts, and it seems to me that it is fundamentally sound. What was condemned here was the transaction, and the transaction being illegal, unlawful, I do not see how U.S.G. can properly tell the court in New Jersey that it was legal and proper.

Now, finally, U.S.G. seeks to recover against Newark in this action in New Jersey on the ground that Newark infringed the patents. That brings us to the question of the misuse of the patents, about which Your Honors have heard at some length. Certainly the record in this case indicates very clearly that the court found that there was a violation of the antitrust laws because of the misuse of patents. That was what was involved in this litigation. U.S.G., the Supreme Court found and this court found, had misused the patents, and that that misuse resulted in a violation of the antitrust laws. That is at the heart of this case. That is why the court found these license agreements illegal, null and void.

That being the case, under the authorities that have already been cited to Your Honors, for U.S.G. to attempt to recover against Newark on the theory that the patents were [fol. 1378] not misused is again to flout the decree of this court, as well as the Supreme Court, which has found that these patents were misused.

It follows, therefore, that Newark is here not as is suggested by U.S.G. to urge this court to enlarge its decree, to amend its decree, but to enforce its decree. We believe that it is intolerable that this court should make a decree holding in the plainest language that what was done by U.S.G. is unlawful and that U.S.G. should be permitted, without any action by this court, to proceed in various places throughout the country to contend exactly the opposite of what this court has found.

We are not here to try this case again. We do not have to ask ourselves here whether there has been a misuse of these patents. The Supreme Court has said that there has been a misuse of the patents. We do not have to explore here the

question of the legality of these license agreements. We had elaborate arguments before this court as to whether or not it was proper to include in the decree of this court a provision that these license agreements and every one of them was illegal, null and void. It was stoutly maintained on behalf of U.S.G. that these license agreements were not illegal, null and void, that the Supreme Court had not intended to find that they were illegal, null and void, but after hearing elaborate argument, that question was decided and is therefore no longer open.

This court, after considering the matter carefully, has found in its decree that these agreements are illegal, null and void.

[fol. 1379] Now, I do not know that it is important to discuss the purpose of including that provision in the decree. U.S.G. in its brief suggests that when the court included that provision it did not realize, and its attention had not been called to the fact, that to include that might preclude U.S.G. from collecting royalties. But that matter was brought to the attention of the court.

In the memorandum of which Your Honors have been furnished a copy, U.S.G. told the court that the memorandum which I had submitted on behalf of Newark urging the inclusion of this provision was designed to relieve Newark from accounting for royalties.

Judge Cole: Is that stated in so many words?

Mr. DeWitt: In so many words, in the memorandum of U.S.G. I will not quote it word for word; in substance.

Judge Cole: I mean, in your memorandum.

Mr. DeWitt: My memorandum urged that the court include in this decree a provision that these license agreements were illegal, null and void. U.S.G., in answering that memorandum, construed the purpose of it to be, and so stated that the purpose of my including that in my memorandum, was to relieve Newark from the liability to account. That memorandum was submitted to the court.

So the court had before it the statement of U.S.G. that the purpose of Newark and the purpose of National—for [fol. 1380] National had also submitted a memorandum in support of the conclusion of that clause—the court had before it at the time it made this decree the statement of U.S.G. that the purpose of including that provision, so far

as Newark and National were concerned, was to avoid the payment of royalties.

Now, certainly the three judges who sat on this statutory court knew what they were doing when they included in this decree a provision that these agreements were illegal, null and void, and it seems to me that we are not so much concerned with the purpose as with the effect, and the effect, as I have said, is to prevent a recovery on these agreements, to prevent a recovery on the basis of quantum meruit, and to prevent a recovery on the patents which were misused.

There are two facts with respect to Newark that are peculiar to Newark. I must admit that I do not believe that they are material here, but I feel that because of this action in Newark I should not close without mentioning them.

The first is, and I must say that I do not believe this appears in the record, and I would ask Your Honors to indulge me while I make this statement—the first is that throughout this period as to which royalties are now claimed, Newark did not use the patent on which it is sued, but used a patent covering a material known as urac. I do not wish by omitting that statement here to have any inference drawn elsewhere that we did use the patent.

[fol. 1381] Another fact is that Newark was not a party to this plan of blanketing the gypsum industry back in 1929 when the original licenses were made. At that time a company known as Kelly Plaster Board Company took out one of these licenses, and it was not until some years later that Newark Plaster Company bought the stock of Kelly Plaster Board Company, and when it bought the stock, it did so largely because one of the assets of the Kelly Plaster Board Company was this license agreement, which was considered very valuable, and before acquiring the stock and concluding the transaction the usual estoppal certificate was asked of U.S.G., namely, a certification to the effect that this agreement was a valid, subsisting agreement, and Newark Plaster Company was informed by U.S.G. that it was a valid, subsisting agreement, and later Newark made an agreement directly with U.S.G.

That may have a bearing here indirectly, in that it may be suggested that we come here having enjoyed benefits and being unwilling to pay for those benefits. I think that is utterly immaterial as to whether we enjoyed benefits or

not. I think the important thing here is that this court should uphold the integrity of its own decree, whatever benefit or detriment may happen to us or anybody else. But if we must discuss benefits, then it should appear that so far as Newark is concerned, it did not get what it thought it was getting. In fact, as it turned out, Newark really bought into a rather extensive and expensive lawsuit.

[fol. 1382] ARGUMENT OF BEHALF OF EBSARY GYPSUM COMPANY

By Mr. Rippey

Mr. Rippey: If the Court please, my name is Joseph Rippey. I represent the Ebsary Gypsum Company, which is a defendant in this action and is a petitioner here.

The complaint against the Ebsary Gypsum Company and the action against it is pending in the District Court of the United States for the Southern District of New York. The complaint in our action is similar to that in the action against the National Gypsum Company. It is also similar to the complaint in the action against Newark Plaster Company with this exception: There is in our complaint a sixth count which is for patent infringement on a patent which was not included specifically under the original license agreement.

Now, the Ebsary Gypsum Company differs in this respect also from National Gypsum Company, and in Newark it is similar, that the Ebsary Company did not take a new license agreement from the United States Gypsum Company pursuant to the decree of May 15, 1951.

Judge Cole: You say you did not?

Mr. Rippey: We did not.

Now, there is also this difference, that there are three patents involved in our complaint—they are all under the original license agreement—instead of one, which was the basic patent. Now, we have Counts 1 and 2, which are on [fol. 1383] the original license agreement.

Counts 3 and 4 are the quantum meruit counts, as stated by the counsel for the United States Gypsum Company. Counts 5 and 6 are for patent infringement.

Now, we claim that there is no question of the jurisdiction of this court. It is so stated in the decree. We claim

that the first two counts on the agreement should be dismissed, as the agreement was declared unlawful, illegal, null and void. It means exactly what it says.

[fol. 1384] The third and fourth counts, which were on implied contract, are similarly void and unenforcible, as they are based on the same transaction. There is ample authority to show that.

Counts 5 and 6, which are the infringement counts, are likewise unenforcible and are supported by ample authority.

Judge Worley: Did you say one of the patents was not involved in the decree?

Mr. Rippey: Yes. Count 6 is on a different patent than is involved in any of the other suits, with the exception of Newark. Newark has also that count in it.

Now, at the time the original license agreement was made, all possible theories of compensation for use of the patents of the United States Gypsum Company were merged in that agreement. It is one transaction. If the agreement itself fails, all other theories fail with it.

Now, there is a fact, I should like to state also, similar to Newark, and it is that we claim that we did not use the patents after the decree of this court. We also had a license agreement to use the Urac process, which has nothing to do with this case, but it was a different process.

Now, coming back to the sixth count, which is on the different patent, that actually was under the original license agreement as it is an improvement patent, and the license agreement with Ebsary, which is contained in paragraph 18 of that agreement, includes all other patents on improve-

[fol. 1385] ments, and therefore it comes under the same classification as the three basic patents which are included in count 5.

Now, since the court has declared the license agreements to be void, we contend that the agreements have no legal existence, and all theories subordinate to them, or different theories of recovery, fail in the same way. We are seeking an injunction against the United States Gypsum Company prosecuting the present suit in the Southern District of New York, and all similar suits that it might bring in the future for enforcement of any back royalties under the agreement.

Now, in the Ebsary case, the claim by the United States

Gypsum Company goes beyond the date of May 15, 1951, the date of the decree, but for the reasons stated, it is void in its entirety, and not limited there. We also submit that the question of misuse did not necessarily terminate, if at all, on that date, but it continued beyond, and it would continue until it has been affirmatively shown by the United States Gypsum Company that the effects of the misuse have been dissipated.

Judge Stone: You mean, affirmatively shown as a matter of record in this or some other court?

Mr. Rippey: In this court.

Judge Stone: Thank you.

Have you gentlemen for the petitioners any further argument to present in chief?

Mr. Knuff, for the Government, said he might want to [fol. 1386] present something.

ARGUMENT ON BEHALF OF THE UNITED STATES OF AMERICA

By Mr. Knuff

Mr. Knuff: May it please the court, my name is Edward Knuff, and since it is rather an unusual name, it is spelled "K-n-u-f-f," and all letters are pronounced.

I represent the United States of America.

By its petition dated June 30, 1953, the Government seeks an order enjoining U.S.G. from prosecuting certain claims in other Federal courts against certain of its former licensees. The Government's petition alleges that in the early part of 1953, U.S.G. instituted separate suits against four of its former licensees, that is to say, against National, Certain-teed, Newark, and Ebsary. In each of these actions, U.S.G. makes the following alternative claims:

1. Recovery of royalties allegedly due U.S.G. under certain patent license agreements, and parenthetically, I want to add that these patent license agreements were adjudged unlawful under the anti-trust laws, illegal, null and void by the decree of this court dated May 15, 1951;

2. It seeks recovery on a quantum meruit basis by reason of the defendant's use of these patents that were included in the patent license agreements; and

3. It seeks damages for infringement by reason of the unauthorized use of these patents.

[fol. 1387] The recovery for which U.S.G. seeks compensation is for the period substantially from March or April, 1948, to May 15, 1951.

By its answer to the Government's petition, U.S.G. admits that it is seeking to recover the royalties under the agreements that had been adjudged by this court to be unlawful, illegal, null and void. That appears in paragraph 4 of U.S.G.'s answer to the Government's petition.

It is the position of the Government that U.S.G. may not sue to enforce any claim based upon any license agreement adjudged by this court on May 15th to be unlawful, illegal, null and void, and that any suit to recover upon such a claim constitutes an attempt to thwart, defeat, and bypass this court's final judgment.

As set forth in our petition, the Government takes no position as to whether U.S.G.'s alternative claims for recovery on the quantum meruit basis or on the infringement counts, are barred by this court's decree of May 15th, or as to whether this court should enter an order enjoining U.S.G. from prosecuting these claims. Insofar as the quantum meruit count is concerned, and insofar as the infringement count is concerned, the Government is neutral, and I want the court to understand that any remarks I make here today are based upon that position.

The Government's petition stems from a civil action instituted in 1940 under Section 4 of the Sherman Act to enjoin the defendants from violating that Act. That 1940 com-[fol. 1388] plaint charged the defendants with conspiring to fix prices on patented gypsum board and unpatented gypsum products and otherwise to restrain and monopolize interstate trade and commerce in those products. The theory of the Government's case was that the defendants, being erstwhile competitors, were engaged in an unlawful combination and conspiracy to organize the gypsum industry under patent licenses and stabilized prices.

At the close of the Government's case, the defendants moved under rule 41(b) of the rules of civil procedure to dismiss, and the District Court granted that motion. On appeal, the Supreme Court unanimously reversed the judgment of dismissal and upheld the Government's theory of the case. The Supreme Court, in that opinion, which is contained in the 333rd volume of the United States Reports,

held that the defendants had acted in concert to restrain commerce under patent licenses in order to organize the gypsum industry and stabilize prices.

On the second appeal of this case, the Supreme Court put the matter more cryptically, when it said that price-fixing patent license agreements made in knowing concert violated the Sherman Act by their very existence.

Following the first remand, this court granted the Government's motion for summary judgment. Thereupon, both the Government and U.S.G. filed proposed findings of fact, conclusions of law, and both filed a proposed decree. The Government's proposed conclusion 14 provided that the [fol. 1389] license agreements were illegal and in violation of the Sherman Act, and in the Government's proposed judgment, in Article VII, it was provided for the cancellation of these agreements, and the second paragraph of Article VII also enjoined their further performance.

On the other hand, U.S.G.'s proposed judgment would have declared illegal only the price-fixing provisions of the patent license agreements.

At the hearing in June of 1949, on these proposals, the Government, believing that it would be extremely unlikely for the court to make findings of fact and conclusions of law, asked that its proposed judgment be amended so as to incorporate therein a provision that provided that the license agreements were unlawful under the Sherman Act and illegal, null and void.

On November 17, 1949, the court entered its judgment, and Article IV thereof provided that each of the license agreements is adjudged unlawful under the anti-trust laws of the United States, and illegal, null and void.

Article IV of the judgment of this court entered on May 15, 1951, is identical in form with the provisions of Article IV of the judgment of November 7, 1949.

Now, from a recital of the foregoing facts, it is apparent that before this court entered its final order of November 7, 1949, it had before it U.S.G.'s suggestion that only the minimum price-fixing provisions of the license agreements [fol. 1390] be declared illegal, and also the Government's proposal that each of the license agreements be declared illegal, null and void.

The court did not adopt U.S.G.'s suggestion. Instead the

court adopted the proposal set forth by the Government, and in doing so it will be noted, the District Court was following the rule established just some time before that in the Katzinger case, which is reported in the 329th volume of the United States Reports, that the obligations to pay royalties cannot be severed from illegal price provisions of the license.

[fol. 1391] In the Katzinger case, the Supreme Court specifically held that when one part of the consideration is unenforcible because in violation of the antitrust laws, its integrated companion must go with it, and by "integrated companion," the Supreme Court was referring to the obligation to pay royalties.

Finally, then, it seems to me when this court on May 15, 1951, adjudged the license agreements to be unlawful, illegal, null and void, it took away from those agreements every shred of enforcibility. In effect, it declared those licenses legally dead. It is difficult to imagine——

Judge Cole: Out of that association, your position is that they cannot come under quantum meruit?

Mr. Knuff: If Your Honor pleases, we take no position on the quantum meruit.

Judge Cole: I understand that. But the quantum meruit claim grows out of the very association you are discussing.

Mr. Knuff: Sir, I do not want to take any position one way or the other on the quantum meruit. The Government is contending here that there can be no recovery by U.S.G. on the counts based upon the patent license agreements, and I do not want to enlarge the position that we set forth in our petition.

As I started to say, it is difficult to imagine how this court could have used clearer words to express the idea that the agreements were struck down in their entirety, and also that their enforcibility was proscribed, and it seems to me that [fol. 1392] to argue such an elementary principle further only tends to obscure the matter. Since suits have been instituted by U.S.G. on these license agreements, these suits flaunt and make a mockery out of the plain words of the final decree, and this court now should act to protect its final decree and bar those suits.

I am frank to say that it is entirely probable that in the District Court in Iowa and in the District Court in the

Southern District of New York and in the District Court of New Jersey, those courts will probably dismiss those claims that are based upon suits based upon the illegal license agreements. However, I think that the probability that this will happen does not relieve this court of the duty of protecting its own decree. Surely after years of litigation the Government should not now be compelled to go out into Iowa and file a brief amicus curiae or to seek permissive intervention or to go up into New Jersey and do the same thing up there, and then go up into New York and do the same thing in the Southern District of New York.

This court now has before it all the parties, and since they are before it, this court should now enjoin the action based upon the patent license agreements.

[fol. 1393] Now on the question of jurisdiction, that this Court has jurisdiction to grant relief requested by the Government, seems to me to be abundantly clear.

Article X of the final judgment specifically reserves jurisdiction of the Court for the purpose of enabling any of the parties to apply to this Court at any time for such orders, modifications, directions or vacations as may be necessary; one, for the construction or carrying out of the decree; and two, for the enforcement of compliance therewith.

Plainly, the Government's petition comes squarely within the above retained jurisdiction. In fact, it would be difficult to imagine a situation more within the reserved jurisdiction than that presented by the Government's petition.

Our petition, if the Court please, does not ask for relief of a different kind or relief of a different nature or relief on a different theory or principle. Certainly, we are not asking as U.S.G. alleges in its answer that the decree be enlarged, for implicit in the adjudication that the license agreements are illegal, null and void, is that the idea that suits cannot be maintained upon them.

In short, what we are asking this Court now to do is to make explicit what was implicit in Article IV.

I am certain that this Court is well aware of the inherent power of an equity court to protect its judgments and decrees. However, since the jurisdiction to entertain these [fol. 1394] claims comes so plainly within the provisions of Article X of the final judgment we deem it unnecessary

to argue the inherent power of this Court. However, as we set forth in our brief our failure to argue it should not be construed as a waiver of it.

Thank you.

Judge Stone: Are there any other counsellors for any of the petitioners who desire to be heard in the main argument? If not, the main argument will be regarded as closed. The Court will take a recess of ten minutes.

(Recess.)

Judge Stone: You gentlemen may proceed.

ARGUMENT ON BEHALF OF UNITED STATES GYPSUM COMPANY

By Cranston Spray, Esq.

Mr. Spray: May it please the Court, my name is Cranston Spray, from Chicago. I shall speak on behalf of U. S. Gypsum Company, along with Judge Bromley.

It would appear that there are at least four major questions before the Court in this proceeding.

In the first place, there is the question as to the jurisdiction of the Court to grant the relief prayed for by the petitioners.

In the second place, there is the question of whether or not the decree of May 15, 1951, enjoined in any way the suits which United States Gypsum Company has brought in Iowa in the Federal Court, and in New Jersey, and the Southern District of New York.

[fol. 1395] Thirdly, there is the question that if this Court has jurisdiction and sees fit to exercise it in this case, is there any basis on this record and in the law for the Court to now broaden the decree to include such an injunction against U. S. Gypsum Company, assuming that it be found that it is not in the decree as presently made?

And, fourthly, there is the question as to the extent, if any, that the doctrine of the Morton Salt case is applicable here; and, if so, we get into the various questions with respect to the application of the doctrine of purge under the facts of this case and in this proceeding.

It shall be my purpose to deal with the first two questions which I have mentioned, that is, with respect to the jurisdiction of the Court, and to consider the question whether the

decree of May 15, 1951, in any way enjoins U. S. Gypsum from suing for compensation for the use of its patents during this period involved.

Before discussing these specific questions, however, it would seem that it might be helpful to give a brief statement as to the present litigation and litigation history of this case, all as appears from the record in the case.

In this respect, I shall be touching possibly on some matters referred to by Judge Rosenman this morning, but I shall endeavor to keep duplication at a minimum, I assure you.

About four years ago U. S. Gypsum Company made a [fol. 1396] very significant development in the gypsum board industry.

The Court is familiar with the product "Gypsum Wallboard," samples of which have been handed up to you this morning.

The thing that I think possibly is not quite clear is that the finished product of wallboard, for example, would be a large sheet, maybe 4 feet by 8 feet.

The lathe would be in smaller pieces which would be nailed on the studs as the base for plaster.

In the old method of making gypsum board, back in this period prior to 40 years ago, the gypsum slurry would be poured on these paper liners, and then the product run through the rollers. And after it had set the edge would be trimmed and the boards sent out to the market with all four edges exposed.

The result was breakage in transit, cracking and breakage as they tried to apply the product to the studs, and the result was a great headache in the industry.

U. S. Gypsum put one of its employees, a man named Utzman, to work on this problem. And he came up with that solution in the closed edge board, whereby one of the paper liners was extended out, folded over, tucked in under the other liner, so that you had on the two edges a closed edge. And that was really the solution to that difficulty.

It was, of course, a product patent. And there were also patents relating to the machinery for making it.

The closed edge board was quickly accepted by the trade, [fol. 1397] and by U. S. Gypsum's competitors who immediately commenced to infringe it. And practically the whole life of this patent was involved in bitter patent liti-

gation with respect to the infringement of U. S. Gypsum's patent by competitors.

Judge Worley: When was that issued?

Mr. Spray: That was issued on August 6, 1912, and expired, of course, 17 years later on August 6, 1929.

U.S.G.'s rights in this patent were ultimately established, and the litigation was settled by a group of settlement agreements, and by the granting of licenses to the infringing competitors and to others in the industry. I shall not go into the detail of that, other than to state that the settlement in each case was exactly on the terms which had originally been laid down by U. S. Gypsum Company, and that was, that everyone must pay for past infringement, that royalty must be paid for the privilege of using the patent, that there should be a reservation in the licensor of the right to fix the minimum price at which the licensee might sell the patented product which was manufactured and sold under the license.

I think it is of interest to mention that at the time the Beaver board settlement was made, that is the settlement between U. S. Gypsum and Beaver Products Company, its largest competitor at that time, in July, 1926, there was pending in the United States Supreme Court an appeal in which the question was being determined as to the legality [fol. 1398] of a minimum price reservation contained in a license which General Electric had granted to Westinghouse.

So that in this license agreement which U. S. Gypsum made it did not try to fix the price at which the patented product was to be made, but it merely reserved the right to fix prices, if it should so elect. And, consequently, we awaited until the outcome of the General Electric decision, which came down in December of 1926, and which was the same as General Electric decision reported in 272 U.S. at page 476.

The essence of it was that since a patentee had a monopoly in the particular field and could charge any price he wanted to for his product, if he chose to share that monopoly with a competitor or with others, it was reasonable, certainly, that he should do it upon condition that the licensee should not sell at any price below the price he fixed as the minimum price for the patented product.

When that doctrine was handed down—and it was not a

new doctrine—it was merely a reaffirmance of a doctrine that had been laid down in 1902 in the Bement case, in 186 U.S.—when that doctrine had been reaffirmed, I should say, by the Supreme Court, then U. S. Gypsum Company exercised its right to fix the minimum price at which its licensees might sell the patented board, manufactured and sold under the license.

As I said, the Utzman patent expired back in 1929, but over a period of years there were other fundamental and [fol. 1399] important developments in gypsum board and patents issued with respect thereto.

For example, there were the starch patents which had solved an old problem in the gypsum industry known as the peeler problem. The peeler problem was that if the bond between these paper liners and the core should be destroyed, then you could just peel that piece of paper that you find is firmly bound in the samples which were handed you, at least, they should be, and I hope so——

Mr. DeWitt: They are U. S. Gypsum.

Mr. Spray: Then they are firmly bound. If that bond was destroyed then you could just peel the paper off. And, of course, the product was useless for the purpose for which it was sold.

With the increase in the speeds of manufacture, and with the increased heat which was used in the drying kiln, that problem was greatly accentuated. And the peeler problem was really a serious one. But it was discovered through these starch patents that by the injection of the starch in the gypsum flurry, the starch apparently followed the little particles of gypsum down into the interstices of the paper and protected them against that heat long enough for the heat not to destroy the bond. And so that was a very important and most important patent which everyone had to use in the modern day fast development and manufacture of gypsum board.

Those are the two patents which National in its brief says show that we were the same as a patent polling arrangement [fol. 1400] in Hartford Empire, where they had some several hundred patents in which they got from Wright and left in every place that they could get and monopolized the industry. They say that we acquired those two patents from

National in order to effectuate the price fixing under the license.

[fol. 1401] As a matter of fact, the record shows very distinctly, without any question here, that in 1929 U. S. G. was accused by Universal, the owner of those patents, of violating them. An examination found that we were violating them and unless we could do something about it we were open to very substantial damages. And the patents were, therefore acquired. And for that reason acquired. And that is in the proffer of proof. Certainly an underlying fact which must be accepted as true.

So that was the only acquisition of patents that was involved here. It was on a very major one which we were using and had to acquire for U. S. Gypsum's own protection.

There was another important patent development and that was in what is known as the foam or bubble patent. In this gypsum slurry something had to be added to the gypsum in order to give it more flexibility, otherwise as the gypsum core set it was so brittle that in nailing and sawing it, it would split and chip off. And for years what had been used for that was the addition of a small amount of sawdust in the gypsum core. That presented its problems for several reasons.

In the first place, it was difficult to get enough sawdust as this product became a major product in the construction industry.

In the second place, sawdust would have different chemical qualities. And in the manufacture of board you ran into problems because of the different chemical qualities [fol. 1402] in the different sawdust that you might be using from time to time during the week or even during the day.

And so something had to be done to try to solve that problem. That solution came in what is known as the foam or bubble patents which involved the injection into the gypsum slurry of foam which formed a great mass of infinitesimal bubbles throughout the gypsum core, and that supplied the need which sawdust had formerly furnished. And it gave the board sufficient flexibility. And it also materially lightened the weight of the board, which made great savings in freight shipments.

In the fall of 1929, when these bubble patents were not issued as yet, but were in the application form, there were new licenses entered into between U. S. Gypsum and the other manufacturers of gypsum board. In those new licenses all of the old patents of the first licenses which were still outstanding were included.

There were also included the starch patents. And there was also included the application for patents on this foam or bubble board.

The application actually under the foam or bubble patent that was issued was first on October 8, 1935. That was the Roos patent, No. 2017022, which is the one with which we are quite concerned here. It is the patent on which suit has been brought against National and Certain-teed out in [fol. 1403] the Federal Court in Iowa.

I think it is important, and I would like to mention this because of Judge Stone's question this morning about this being merely an improvement patent when Judge Rosenman was speaking of the Utzman patent. I think that I could refer to just two or three of the proffered proof. There were a number of them with respect to these patents.

I only want to take time to read a few as to which I think there could be little question about there being underlying facts.

Proffer of proof 5 was that at all times from 1912 to date, the sole interest of the licensor in enforcing its patent rights by litigation in the settlement of its patent litigation, in the offering and issuance of its patent license agreements, and in the enforcement thereof, was to secure to itself the full benefits of its patents and not to enter into a plan or scheme to stabilize the gypsum industry.

The companies which became licensees did so because they desired to settle or avoid litigation and to obtain the right to use U. S. G.'s patents, considering it a business necessity to be able to do so.

And findings of fact 61 and 62, which were that the principal patents of U. S. G. under which license agreements were issued were basic patents and of such scope as to have great commercial value.

[fol. 1404] It was essential that each manufacturer of gypsum board should have the right to use said patents in order to be competitive with those who had those rights.

The license agreements hereinbefore referred to were negotiated at arm's length and were bona fide agreements entered into in good faith and intended to bind each party thereto to the promises made therein. They were not sham agreements executed to effectuate any purpose or objective not expressly set forth in the agreements.

There are, of course, other proffers of proof about the license agreements being independently entered into, and that they were not granted on any condition that anybody else in the industry should or would take a similar license.

As I have stated, for a period of years U. S. G. operated under these licenses and exercised its right to fix the minimum price at which the licensee might sell the patented board manufactured by it.

I think I might just pause here to point out that neither the license nor the minimum price bulletins which were issued under them at any time attempted to fix a minimum price on the basis of a process patent. I am sure there are a good many lawyers that would argue that that was perfectly a legal basis for minimum price fixing and patent licenses, but in this instance the exercise of the right both as given in the license agreement itself and in the minimum [fol. 1405] price bulletin was limited to product patents, was limited to the fixing of prices of the patented product itself covered by a product patent. And as I have indicated, by fundamental product patents.

I shall have occasion later to go into that. I did not mean to get into it in this brief statement of the facts, but there were statements made this morning by Judge Rosenman about this price fixing under the license agreements which, as I understood, would not certainly be accurate, as he spoke of the license bulletins being used to fix the price of gypsum products all over the country or in the eastern part of the country.

Well, of course, they were always limited by their language and operation to patented board and not to gypsum products generally, as I shall later develop.

Furthermore, they did not establish, as was indicated, the delivered pricing or the pricing method in the gypsum industry. All they did was to apply the then existing method of pricing in the bulletins, but that method of pricing was not created by this license bulletin at all.

It is true they were complicated, but I think it has been the experience of everyone that when you undertake to fix a minimum price it has a lot of angles and details to it.

I have had the occasion, and Judge Stephens, in his opinion, goes quite fully into the General Electric minimum price bulletins, and I am sure that the bulletins issued in [fol. 1406] that case which were approved by the Supreme Court were fully as complex, if not more so, than the bulletins issued under the U. S. Gypsum patent licenses.

We have found when the Government tries to fix price by the maximum price in the OPA or prices under the bituminous coal code, that the price bulletins get rather voluminous, as anyone here who has had experience with that will vouch for.

In 1940 there was a grand jury investigation in this industry. The records of all of the manufacturers were subpoenaed to Washington. Witnesses were brought here. And the industry was confronted with a typical package in those days, two criminal indictments and a civil suit.

The first criminal case came on in 1941 and was tried here in Washington in the fall, October, to November, 1941, before Judge Alan Goldsborough, and at the conclusion of the Government's case, after five or six weeks of trial, the Judge directed a verdict for all defendants. That disposed of the first criminal case with which we were confronted.

And then the second criminal case was nolle prossed by the Government, which left us with the civil suit that was tried back in 1943.

There had been a special statutory court appointed for the trial of this case. Trial commenced on November 15, 1943. And with a few short recesses, the Government took from that time until April 20, 1944, to present its case. [fol. 1407] At the conclusion of that case, the defendants —and by that I mean U. S. Gypsum Company and the defendant petitioners who are here, and they heard some of the statements in chief of the petitioners' case. It almost seemed as if this was the suit against U. S. Gypsum Company—it was against all of these defendant companies—and they were all charged with violation of the Sherman Act—at the conclusion of the Government's case we felt, we all felt that the Government had failed to sustain the claim, to make any ground for relief under Rule 41(b),

either on the law or on the facts, that it had shown no right to relief.

And so we moved for a dismissal at that time of the Government's case.

It may be that we made a mistake in that motion. Certainly by doing it we had no idea we were going to forever pass up our chance to put in our evidence in this case. The rule seemed quite specific on the point. And it had been drawn so as to make it clear that upon the denial of the motion, the defendant should be entitled to go ahead with his evidence. There being some difference, as the Court will know, at that time in the various state jurisdictions as to the effect of a motion to dismiss in a civil case at the end of the plaintiff's case. But the rule seemed clear. But the fact remains that we made our motion. It was granted. We were never able after that time to introduce our evi- [fol. 1408] dence other than by this proffer of proof which we feel, and I will later argue, the Court very certainly, acting as it did in this case, did just what it said, and that was to accept the truth of the underlying facts set forth in our proffer.

It was upon the approval or the granting of our motion for summary judgment that Judge Stephens rendered his exhaustive opinion that is reported in 67 Fed. Supplement, at page 397, an opinion which was joined in by Justice Garrett and Justice Jackson, who were sitting with him on that Court.

There was an appeal by the Government to the Supreme Court, and I shall have occasion certainly later to go into that opinion, reversing the decision in this case. Suffice it here to say that the judgment of dismissal was reversed on the ground that the plaintiff had shown a prima facie case and under the rule we should not have had a dismissal.

We then came back before this Court and found there were disagreements as to the meaning of the Supreme Court's opinion, and I might venture a guess that wherever lawyers meet in the future, there may still be some points of argument about the meaning of the opinion here and there. But as a result of a preliminary hearing which was held in November, November 8, 1948, it was suggested that a motion for summary judgment be filed to express the views

that the Government had informally expressed and that the defendants filed their proffered proof. This was done. [fol. 1409] There was argument before this Court on June 29, 1948. And in a 2 to 1 decision, the Government's motion for a summary judgment was granted, Judge Stephens dissenting.

I will develop that later.

I think it is reasonably clear that the basis of that decision was that the majority of the court construed the Supreme Court's opinion as meaning that a plurality of licenses with price fixing throughout an industry adhered to by the parties with knowledge of the adherence of the others constituted a concerted action in violation of the Sherman Act.

Following the court ruling on the motion, the Government was given a period of time, 120 days, I believe, for the preparation and submission of a decree. On July 30th of that year, 1948, the Government came before the court for a temporary restraining order which the court denied as unnecessary, but without prejudice to make it later, and the Government then filed with the court in November of 1948 its proposed findings of fact, conclusions of law, and decree which was obviously based upon the theory that the Government had proved everything averred in the complaint, whereas, as we contended, and by not only U. S. Gypsum but all of the defendants who are now defendant petitioners here, that the ruling of necessity must be a narrow adjudication and could not possibly have been an adjudication with respect to the various charges which were at issue by reason of the answers of the parties and [fol. 1410] the proffered proof.

Certainly, without a hearing. Accordingly, in May of 1949, we filed, as has been suggested this morning, and by we I mean U. S. Gypsum—a memorandum in opposition to those proposed findings, conclusions, and decree and make suggested findings of our own, if any were deemed necessary and submitted a form of decree which we felt covered actually the adjudication which the court had made.

The other defendants, such as National, Certain-teed, Ebsary, also filed memoranda in which they joined heartily with us and unequivocally with us in our objections to the Government's findings and conclusions and as being far

outside of the scope of the adjudication, and concurred actually in the decree which we had submitted, except only with respect to the provision for cancellation of the old licenses and the granting of new license agreements.

There was also a two-day argument before this Court with respect to the form of the decree and the objection to it that had been made by all of the parties, and I shall have occasion later to speak with greater detail as to some of the positions presented at that oral argument.

Suffice it to say at this point that the defendant petitioners concurred with U. S. Gypsum's objection to the scope of the findings and decree, and joined with us in our contention that the adjudication by the very posture in [fol. 1411] which the judgment was taken must have been a narrow adjudication.

On November 9, 1949, this court entered its first decree which is for convenience in the U. S. Gypsum brief as pending. That decree contained a preliminary statement and ten articles.

The preliminary statement referring to the court's understanding that the Supreme Court in its first opinion had determined that the defendants had acted in concert to restrain trade in the Gypsum Board industry and had monopolized trade in that industry in the eastern territory, and then proceeded by article 3 to make an adjudication of Sherman Act violation in this language:

> "The defendant companies have acted in concert in restraint of trade and commerce among the several States in the eastern territory of the United States to fix, maintain, and control the prices of gypsum board, and have monopolized trade and commerce in the gypsum board industry in violation of sections 1 and 2 of the Sherman Act."

Article 2 listed the various license agreements outstanding.

Article 4 declared each of them unlawful under the antitrust laws and illegal, null and void.

I shall come back to that clause in a later discussion of whether or not this decree contains any language which could possibly be considered as an injunction against the [fol. 1412] suits which U. S. Gypsum has brought.

I probably should have mentioned that in the course of the argument before the court as to the form of decree, U. S. Gypsum had made several tenders of license agreements which it proposed be entered into in lieu of the old agreements. And these we believe did eliminate all of the provisions of the old agreements which were really considered objectionable, apparently, by the Supreme Court.

There had been several revisions to meet some of the suggestions that the licensees had made, such as they wanted it broken down so they would have different patents in different agreements, and a few other suggestions like that.

Our last form of license agreement that we had submitted was not only submitted to the other licensees, but filed with this court on July 23, 1949.

And when the court issued its decree of November 7, 1949, it expressly approved these forms of license agreements which it ordered filed with the court as of that date. So that we did have an approved form of license agreement in the form which U. S. Gypsum had filed the preceding July.

Needless to say, U. S. Gypsum did not like this decree of November 7, 1949, because it felt that it had improperly rendered judgment against it, but it nevertheless had determined to accept the decree.

Then it was ascertained that the Government was dissatis- [fol. 1413] fied with the decree and was intending to appeal. And U. S. Gypsum felt that if the Government were to appeal, then we would be in a very disadvantageous position if we should resist further relief before the court, admitting that judgment were properly rendered against us below, and that we were really compelled to appeal to assert what we thought was error in the granting or in the adjudication of law violation.

So that U. S. Gypsum also appealed. And the two appeals went up in the spring of 1950. A word has been said about the stay order. The decree was effective November 7, 1949. Both appeals were filed January 6, 1950.

I have not recently looked at the record, but I think it must be reasonably clear that the Government did not seek a stay of the decree. The stay order was in connection with

U. S. Gypsum's decree. I think it was for the period of U. S. Gypsum's appeal.

The end of that appeal came sooner than we anticipated, because on May 29th, 1950, the Supreme Court by order dismissed U. S. Gypsum's appeal. And at that time entered a restraining order against all of the defendant companies from performing any of the provisions of any outstanding license agreements and from fixing the price of gypsum board by license agreements or other concerted action.

On November 27, 1950, the Supreme Court rendered its second opinion in connection with the Government's ap- [fol. 1414] peal. Well, of necessity, later I will come back with probably greater detail on some of the points in that opinion, but I would like at this point to say that in that opinion the court first reviewed the procedure in the granting of the motion for summary judgment and the reasons for its affirmance of the adjudication of violation of the Sherman Act and the reasons for its dismissal of U. S. Gypsum's appeal.

The court accepted as it expressly stated the District Court's decision as an adjudication of Sherman Act violation, accepting as true the underlying facts of the defendants' proffer of proof and accepting the trial judge's understanding that summary judgment—and I am quoting—"limited to that one undisputed question of violation by concerted action of the defendants in the fixing of prices of gypsum board."

I should have stated that on May 29, 1950, the Supreme Court not only dismissed the U. S. Gypsum's appeal, but it also entered an order in which it expressly affirmed the adjudication of Sherman Act violation in exactly the language of Article 3 of this November 7, 1949, decree.

The Supreme Court in its second opinion then reviewed the provisions of the decree and rejected some of the Government's contention, but granted a number of the Government's contentions with respect to enlarging the provisions.

Judge Cole: Of the November decree?

Mr. Spray: Of the November decree, yes, sir, but I do [fol. 1415] think that it is significant that in ordering some enlargement of that decree the court expressly said that it

was doing so, and I am quoting, "On the assumption that only a violation through concerted industry license agreements has been proved, but recognizing as is conceded by the defendants, that relief to be effective must go beyond the narrow limits of the proven violation."

So that it was not an enlargement of the adjudication of law violation, but merely on an enlargement of some of the relief which the Government wanted which they felt must go beyond the narrow limits of the proven violation to be fully effective.

On May 15, 1951, this decree which we are considering today was entered by this court, but prior to that and after remand from the Supreme Court in its second decision, we found there were three or four forms of decree filed with the court.

The Government filed its form. The defendant National filed a form of decree.

Defendant Certain-teed filed a form of decree.

Defendant U. S. Gypsum Company filed a form of decree.

So that the court had four forms of decree to consider. It was felt that at that point it was about time we sat down and negotiated and found a decree that seemed satisfactory to all of us and seemed a decree that we could hand to the court and say, "This meets the requirements of the [fol. 1416] Supreme Court second decision," and that was done.

Such a form of decree was prepared and was presented and considered by the court. That was done on May 15, 1951. And before signing the decree, the hearing was before Judge Stephens and Judge Garrett and Judge Jackson, and all of the defendants and the Government were specifically questioned as to whether or not they were satisfied with this decree, that its provisions were agreeable to them as to form, and each one in turn arose and said that they agreed to it and it was satisfactory to them.

I shall, of course, discuss that decree later, but I would like at this point to turn just a moment to refer to some changes in the operations under these old license agreements. As I stated after the General Electric case, U. S. Gypsum did exercise its reserved right to fix the minimum price at which the patented product might be sold. But on July 8, 1941, U. S. Gypsum canceled and withdrew all of

its minimum price bulletins, and there were never any bulletins issued after that date. So that I am somewhat surprised at the statement this morning that this decree of May 15, 1951, had the effect of freeing the industry from this strait-jacket which it had been in by reason of the minimum prices and the price provisions issued under those bulletins.

When the decree of May 15, 1951, was entered, there had not been a minimum price bulletin in effect for almost ten [fol. 1417] years, just short of a couple of months of that. That cancellation, withdrawal, was because of the expiration of the last of these Starch patents on July 8, 1941.

And we knew that everyone that was using the Starch patent, we thought were using the Roos patent, but in view of any possible doubt on that score, we withdrew all of the minimum price bulletins and canceled them, and they were not issued again.

[fol. 1418] Although there was no price fixing under these licenses since July 8, 1941, the parties continued to operate under the license agreements. The licensees used the patents. They made their monthly reports. They paid their royalties. U.S.G. exercised its rights to check on the royalty payments and the royalty reports. And to correct something that seemed not quite correct this morning about the new license agreement, meaning that we could no longer go in and look at their books, well, under the old license agreements we had the right to have a representative look at the books but any licensee could have prevented us from looking at the books by merely exercising a right that was in the license agreement to have it done by a certified public accountant, agreed to by the parties. So that that was not quite as significant a change as indicated in referring to the new licenses which were issuable under the May 15, 1951, decree.

Judge Cole: Looking at the books, and so forth, during the three-year period, was that?

Mr. Spray: I am just coming to that.

No, I am saying that that clause was in the old license agreement.

Judge Cole: I appreciate that.

Mr. Spray: Now I have just mentioned that we operated under those old license agreements. The royalty was paid.

We exercised our rights. All parties continued after this [fol. 1419] July 8, 1941 date, when the minimum price bulletins were issued. That is coming to your question, Your Honor.

On March 8, 1948, when the Supreme Court rendered its first decision reversing Judge Stephens and his colleagues in their order of dismissal, it came as quite a shock to the old industry. We were not expecting that. And everybody stopped in their tracks as far as these license agreements were concerned.

The licensees stopped paying royalties. They stopped making reports. As National in its petition sets out, they stopped doing anything under the license, because the Supreme Court had held them unlawful.

U.S.G. likewise did nothing to try to enforce the license agreements. We just sort of were in a status quo during that period there as far as taking any action. No action was taken by us to enforce them. And that is why, in answer to your question, I wanted to postpone it to explain that situation. And that was that no effort was made to audit the books, no royalties were paid during this three-year period that is involved in this litigation out in Iowa, and New Jersey, and New York.

Nevertheless there was one thing that continued, and this is the basis of these suits, that was, that the old licensees, the petitioners in this case did continue to use our patents although they ceased paying royalties for the use or paying any compensation for the use. They continued to use them.

Judge Worley: When did that period start?

[fol. 1420] Mr. Spray: May 8, 1948, was when the first opinion came down.

In the ordinary course of events, on March 20 of 1948, the reports would have been due for the February royalty, for the royalty on board manufactured and sold in February of 1948. National and Newark, for example, stopped paying, did not report for February. I think Ebsary paid one more month and then stopped. And Certain-teed a month after that and stopped. But it was all right in that period, the royalty for February of 1948, up through in the case of Certain-teed, April, 1948, that they stopped paying royalty and did not pay from that time on until, in

the case of National and Certain-teed, they took their new licenses and then they did pay from May 15, 1951, on.

Judge Worley: Did you say Certain-teed only?

Mr. Spray: National and Certain-teed. But not Newark or Ebsary.

Judge Worley: I believe on dates, if you will pardon me, in Appendix A of your brief you have 1953. Is that a typographical error?

Mr. Spray: I thought that was corrected in all of them. We caught that after the printing. We certainly intended that every brief that went out had that changed to 1951. It is a typographical error. I am chagrined to say that there are maybe half a dozen others that we have discovered which I think before this hearing is over I will like to hand [fol. 1421] up an errata sheet that would correct that, so that you may make that correction.

Judge Stone: That may be done.

Mr. Spray: As I have spoken of the May 15, 1951, decree, immediately when that was entered, U.S. Gypsum communicated with its various licensees, those who were the licensees under the old arrangement and its co-defendants in this case, and expressed a willingness to act promptly on any application they might care to make for a license, indicating that we recognized we had not been paid for some of the past use. National and Certain-teed made application for a new license. And we had a question there as to whether we should try at that point to collect this past royalty.

[fol. 1422] Judge Stone: May I interrupt you? What do you mean by indicating at that point that you had not been paid for the past use?

Mr. Spray: We pointed out that they understood of course that they had not been paying for the use of our patents during the past few years, and that we were standing on our right to collect compensation.

Judge Stone: You called attention to that?

Mr. Spray: That is correct. When these applications came in we were faced with the question at that point, but the decree said that if an application was made we should grant a license on reasonable royalty. It was concluded not to confuse that issue at that point, but to make an offer of the license which we would enter into and state the royalty. But in so doing, in sending the form of license agreement to

National and to Certain-teed we had a couple of changes to work out, some details, and in signing up and sending the signed agreement to them, for them to sign and send back to us, in each case we expressly said that this was without prejudice to our right to receive compensation for the use of our patent that they had made in the past and not compensated us for. That was in every communications sent to these two prospective licensees. And then when they each made a royalty payment, the first royalty payment under this new license, we sent a letter of acknowledgment to both of them in which we said, "You understand, of course, [fol. 1423] from our past exchange of correspondence, that this is without prejudice to our claim for compensation for any use which you may have made of any of our patents and not compensated us for it." So that that was done in 1951 as these new license agreements were entered into.

Time passed, and U.S.G. was faced with the problem of taking action or losing compensation completely for the use of these patents during this period.

Judge Cole: Was there any reply to that letter that you just referred to?

Mr. Spray: No reply, no, sir, other than, for example, where we signed the agreement and sent it to them for their signature, it was signed by them and sent back and just a letter of transmittal. Nothing was said about the matter of compensation. But I think it is clear. It certainly is in our sworn answer that is filed to all of these defendants' petitions that throughout the whole period, not only this period I am speaking about, but in the 3-year period, all of these defendant petitioners were on notice that we expected to be paid for the use that they were making of our patents.

The statute of limitations was running and in order to avoid the bar of that statute we decided that we would have to bring suit for this money, if we expected to collect it. So suit was brought last January 28th against National in the U. S. District Court for the Northern District of Iowa. [fol. 1424] Within a couple of months a suit was brought against Certain-teed in that same jurisdiction.

National, Certain-teed and U. S. Gypsum all had and have had for many years gypsum board plants in that district and we all had a good idea of how they had been making their board and were making their board then. It was cer-

tainly an appropriate jurisdiction in which to bring suit, particularly if we got to the question of this infringement claim. We were right there where they were actually making the board.

Judge Cole: You are speaking of Iowa?

Mr. Spray: Yes, sir.

Subsequently, we brought suit against Newark which is located in New Jersey, and against Ebsary which is a New York corporation, and that was brought in New York.

Copies of the pleadings filed in that court have been submitted to this court, not only the complaints which were filed, but the answers which have been filed to those complaints. At the suggestion of this court when we were here on a preliminary hearing last June 9th, I think all of those papers have been lodged with this court. And from that it will appear that issues have been joined in the Iowa court, although for the time being there is a stay of proceedings there and the matter is held in status quo in the Newark and Ebsary cases by means of merely stipulating an extension of time for answering until a disposition of the matter in this court.

[fol. 1425] I feel from some of the explanations of the counts which I heard this morning I should like to just explain a bit about the theory of these counts.

Judge Stone: May I interrupt you?

Mr. Spray: Yes.

Judge Stone: Let me suggest that before you go into that different subject for discussion, being so near the time of our recess for the day, that we had better do that, so that your argument under that heading may be consistent and complete.

Mr. Spray: Thank you, sir. Very well.

Judge Stone: The court will take a recess until 10:00 o'clock tomorrow morning.

(Whereupon, at 4:30 o'clock p.m., a recess was taken until 10:00 o'clock a.m., Wednesday, January 13, 1954.)

[fol. 1426] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

Holding a Three-Judge Statutory Court

Civil Action No. 8017

UNITED STATES OF AMERICA, Plantiff,

v.

UNITED STATES GYPSUM COMPANY, et al, Defendants.

REPORTER'S TRANSCRIPT OF HEARING ON PETITIONS OF NATIONAL, ET AL.—January 13, 1954

Court Room No. 19, Sixth Floor,
United States Court House,
Washington, D. C.,
Tuesday, January 13, 1954

The above-entitled cause came on for further oral argument on petitions of National Gypsum Company, Certainteed Products Corporation, Ebsary Gypsum Company, Inc., and Newark Plaster Company, at 10:00 a.m., pursuant to recess before Honorable Kimbrough Stone, Honorable William P. Cole, Jr., and Honorable Eugene Worley, sitting as the District Court of the United States for the District of Columbia.

APPEARANCES:

Edward Knuff, Esq., Special Assistant to the Attorney General; and

Vincent A. Gorman, Esq., and Lawrence Gochberg, Esq., Trial Attorneys, on behalf of the United States of America.
[fol. 1427] Cranston Spray, Esq., Bruce Bromley, Esq., Robert C. Keck, Esq., Hugh Lynch, Jr., Esq., John E. MacLeish, Esq., and Arthur A. Olson, Esq., on behalf of United States Gypsum Company.

Seymour Krieger, Esq., Samuel I. Rosenman, Esq., Elmer E. Finck, Esq., and Seymour D. Lewis, Esq., on behalf of National Gypsum Company.

Norman A. Miller, Esq., Herbert W. Hirsh, Esq., C. Roger Nelson, Esq., Donald H. Clausen, Esq., and Franklin M.

Schultz, Esq., on behalf of Certain-teed Products Corporation.

Joseph S. Rippey, Esq., on behalf of Ebsary Gypsum Company, Inc.

Benjamin P. DeWitt, Esq., on behalf of Newark Plaster Company.

[fol. 1428] ARGUMENT ON BEHALF OF UNITED STATES GYPSUM COMPANY—Continued

By Mr. Spray

Mr. Spray: Thank you. I was certainly trying to.

At the close of the session yesterday, I was about to speak of the count up in the Iowa suit, but before going to that I would like to make some supplementation to the answer which I gave Judge Cole with respect to whether or not there had ever been any reply by any of the defendant petitioners to U. S. Gypsum's letters during the summer of 1951, saying that in furnishing this license and in accepting royalties we are not waiving our claim we have against you for past use.

In answer to that question I gave to the best of my recollection that nothing had been said other than there would be a normal letter of transmittal returning the license.

Just to be sure of that, I checked with my office last night and I find that that is correct as far as National is concerned. I need some addition, however, with respect to Certain-teed.

On July 31, 1951, the U. S. Gypsum Company had replied to Certain-teed's request for a license, sending a form of license, suggesting the royalty rates, and in that letter there was this paragraph which I spoke of yesterday. [fol. 1429] There was negotiation between the parties and finally the license agreement was worked out satisfactorily. And on November 9, 1951, U. S. Gypsum sent this signed copy of the license to Certain-teed for its signature. And in that letter it stated:

> "As we said to you in our letter of July 31, you understand that nothing in the proposed license agreement shall give you any of our patent rights beyond

the rights therein granted. Furthermore, it is understood that nothing contained in said license agreements or done in this connection shall be construed as a waiver or release by us of any claim we may have against you for any use you may have made of any of the claims of U. S. Letter Patent No. 2017022, or one of any of our other patents therein expressly licensed prior to the effective date of the license, or for any use you may have heretofore made of the claims of any of our other letters patent or patent rights."

You will recall the effective date of the license was the May 15, 1951, date.

In reply to that letter Certain-teed returned the license agreements signed.

Judge Worley: That was dated in July, you say?

Mr. Spray: The first letter sending the form of license was July 31.

[fol. 1430] Judge Worley: Of 1951?

Mr. Spray: 1951. Then we had the negotiations to work out the terms. And this letter which I just referred to was November 9, 1951, when we finally signed it in the agreed upon form and sent it to them.

In reply to U. S. Gypsum's letter of November 9, 1951, Certain-teed sent back the signed license and they did say this as their closing paragraph, in reply to that paragraph which I just read:

"Referring to the comments in the last paragraph of your letter of November 9, 1951, it is understood that our execution of the enclosed license agreements and the letter of clarification does not constitute or imply nor shall it be construed as recognition or acceptance of the existence or validity of any claim which you may assert against us by reason of our claimed use of any of your patents licensed to us in said license agreements prior to the effective date thereof or for any claimed use of other letters patent or patent rights belonging to you."

So they did have in that letter a clause which merely was to protect them against our claiming that the acceptance of the license was an acknowledgment of the claim, but

there, of course, is nothing in it indicating we were enjoined against suing them or indicating any surprise at the sug- [fol. 1431] gestion that we were making the claim.

On December 31, Certain-teed sent their first royalty under this license covering the period from May 15, 1951, to November 30, 1951. And when U.S.G. acknowledged the receipt of that royalty, it added a paragraph again that "this receipt, of course, is without prejudice," with that usual language.

We had no reply from Certain-teed to that letter.

I just wanted to supplement it so that I would have a completely accurate answer to Your Honor's question.

It does make it rather difficult to understand the allegation however, in paragraph 10 of Certain-teed's petition filed herein where they tell of these negotiations and say that "on November 9, 1951, pursuant to the final decree they entered into this agreement with U.S.G.," and then they have this language, "No reference was made in said new agreement to any past due royalties and no claim was made by U.S.G. in the negotiations of the new license agreement. Payments of royalties under the new license agreement were accepted by U.S.G. without any reservation of rights or claims to said past due royalties."

With respect to the suits in Iowa, those *are,* as Your Honors know contain five counts. The first count was certainly a count on the license agreement for royalties due under that, although the full claim for royalties possibly was not made because we were only suing for damages and for royalties on the board which actually involved the use [fol. 1432] of this patent number 2017022 that was referred to in this correspondence.

Count 2, I think, could also be said to be on the contract because it does set up the contract, but it avers a modification of it which we think the parties made.

And Count 3, however, is the quantum meruit count and Article IV, too, I believe is quantum meruit. That does not proceed on the contract at all, but on the factual proposition that after the first Supreme Court decision, the licensees repudiated the contract. U.S.G. acquiesced in the repudiation, and the contract was rescinded, but the parties went ahead and used the patents, I mean, the

licensees went ahead and used the patents under terms from which the law would imply a promise to pay.

Count 5 is, of course, the infringement count.

I was startled to hear the statement yesterday that the first four counts were based on the contract. I think a reading of it will show that that is inaccurate.

It also makes quite irrelevant, I think, the argument on quantum meruit which we heard yesterday. And the constant reference to Bruce's Juices and the doctrine laid down in that court about no recovery on quantum meruit.

I hope that the court will have the opportunity to study the Bruce's Juices case. We rely on it in our brief. It does not lay down any doctrine of no recovery on quantum meruit. It was a suit under a contract or for goods sold [fol. 1433] under a contract, and the court denied the defense that the goods were sold in violation of the Robinson-Patman Act, because discriminatory sales had been made to the defendant's competitors. The court denied that defense. And in the course of the opinion was speaking about recovery on those contracts, where it did say and referred to the old Horn book log that if you have an illegal contract you just cannot put the contract to one side and sue in quantum meruit for the same thing that was covered by the contract.

As I have pointed out in the Iowa suit, Count 3, that I mentioned, for example, does not proceed on this contract at all, but rather on a rescission of it. And we are dealing about a period which is subsequent to the date of that contract and a period in which the use of the patents was at a time when there was no outstanding contract that anybody could possibly say was illegal.

Judge Cole: I understand the quantum meruit count makes no reference whatever to the contract.

Mr. Spray: None whatsoever, no. Pardon me, it refers to it, but says that it was rescinded by acts of the parties and at a date prior to the date that we are claiming for. It makes that much reference to it, but the claim is not based at all upon the contract, but rather for the reasonable value of the use of the patent.

Coming into the consideration of the specific points which [fol. 1434] have been assigned to me, I would like to restate at the outset that neither U. S. Gypsum Company nor its

attorneys would knowingly take any action in violation of an order of this court. It is certainly our intention to comply strictly with every order of this court. And we feel confident that we have not violated it in the bringing of these suits in Iowa and elsewhere; and that this court upon full consideration will conclude that that action was not flouting this decree of this court.

Furthermore, I would like to make it perfectly clear that in raising the jurisdictional question, U. S. Gypsum has no hesitancy or hesitation in presenting this matter to this court. We just felt that there were serious jurisdictional questions which the court would, of course, want to have raised, but if it is the decision of the court that it has jurisdiction and desires to proceed in the matter, then we are quite happy to proceed with the case to a full determination of the rights of the respective parties and a judgment accordingly.

Of course, the defendant petitioners have not thus far asked that the court do just that, I believe. They have only asked that the court intervene here to enjoin the prosecution of these suits in the other federal jurisdictions and determine some purged questions, but they have not, I do not believe, asked that this thing be carried clear through to judgment in accordance with the rights of the parties as this court sees them.

To us that should be done if the court assumes jurisdic-
[fol. 1435] tion and action in this case.

Because of their pertinence, I want to discuss at the outset two points of conflict which have developed in the briefs and which have developed in the argument and, that is, first, as to the scope of the adjudication of law violation in this case, and, secondly, as to the basic purpose of the decree.

The defendant petitioners rely heavily upon the proposition that our position is untenable because it misconstrues this court and the Supreme Court's acceptance of the truth of the defendant's proffered proof. And because it is based upon the premise that there was a narrow adjudication of law violation in this case.

[fol. 1436] In the argument yesterday Judge Rosenman said that the petitioners claim that the conspiracy extends

to all the products and to patent misuse, and that that was the adjudication in this case.

In contending that we have misconstrued the extent of the adjudication the defendant petitioners have reversed a prior position which they took. As I stated yesterday, they joined unequivocally with U.S. Gypsum in opposing the Government's first proposed findings, conclusions of law and decree in 1948. And the basis of their objection along with ours was that it went far beyond the scope of the adjudication.

It was then contended by them, as well as by us, that in view of the issues joined by the answer, and in view of the proffered proof which the court was accepting as true, every issue was in controversy except only that the companies had executed license agreements with price fixing throughout an industry with adherence to the licenses and knowledge of the adherenec of others.

The adjudication could only be then, we contend, that the defendant companies had acted in concert and that all of these other alleged abuses which were of the traditional type of law violation of the Sherman Act, were not and could not have been included in the adjudication, in the posture of the case when summary judgment was taken.

Of course, the conspiracy charged in the complaint in this [fol. 1437] case was a very broad, sweeping conspiracy. It was not, I do not believe, as Judge Rosenman said yesterday, where he said that the gravamen of the complaint was that U.S.G. by means of patents had regimented the industry. Not at all. The complaint was against U.S. Gypsum, National, Certain-teed, Newark, Ebsary, Celotex—all of these people that are before the court as defendant petitioners, charging them with having conspired in restraint of trade of gypsum board, plaster, miscellaneous gypsum products in the Eastern territory of the United States; charging that they had entered into and carried out this conspiracy in part under the guise of license agreements which were not bona fide agreements, but entered into by the parties to carry out these illegal purposes.

Those material issues were all controverted, of course, by the defendants' answers. And we have the trial which I spoke of in 1943 and 1944. And this court's order of dismissal at the close of the Government's case.

Then the appeal. On the reversal of this court's order of dismissal: The Supreme Court in its opinion in 333 U.S. did comment upon the evidence, and did review some of the evidence with respect to these other collateral charges and issues, and did reject some of the findings of this court, but in everything that it said there it could only have been talking about a prima facie case. It had at that time only the Government's evidence before it, and so that everything that [fol. 1438] it said with respect to that evidence was examining this to see whether the plaintiffs had met the requirements of Rule 41(b), so that they had made their prima facie case, and we were compelled to go ahead and put in our proof.

There were significant statements made in that opinion, both of which were referred to yesterday by Judge Rosenman. I think they are of sufficient importance that I just refer to them again. They are brief.

Because the court said in 333 U.S. at 389, "We think that the industry-wide license agreements entered into with knowledge on the part of licensor and licensees and the adherence of others with control over prices and methods of distribution through the agreements and the bulletins were sufficient to establish a prima facie case of conspiracy."

At page 401 of the same opinion—and this I think is very significant—after they had made this review of the prima facie case that had been made of all of these broad, vicious charges of law violation, the court said, "Even in the absence of the specific abuses in this case which fall within the traditional prohibitions of the Sherman Act it would be sufficient to show that the defendants constituting all former competitors in an entire industry had acted in concert to restrain commerce in an entire industry under patent licenses in order to organize the industry and stabilize prices."

I think there could be little doubt that it was that language [fol. 1439] of the court which prompted the majority of this court when we came back here to conclude that even if all of our proffers were accepted as true, which the court did without any equivocation, we still were in trouble because of that language, because we could not put in our proffered proof. It was not the fact that we did not have

these industry-wide licenses with price fixing that had been adhered to by the parties with knowledge of the adherence of others. And I think it is so clear that that was exactly the basis of this opinion by the statement of Judge Stephens at page 110 of the 1950 record—there he said—and this was during the course of the argument on June 13 and 14, 1949, as to the form of the decree—there Judge Stephens said:

"As I understood the whole argument in favor of the proposed summary judgment and the argument against it, it came down to the single proposition that the Government contended that the Supreme Court had ruled it in its reversal of our decision that a mere plurality of patent license agreements, industry-wide with price-fixing provisions adhered to by the parties was ipso facto illegal, and there being no dispute in the case, so it was contended that there was such an industry-wide price-fixing arrangement, that was the end of the matter, and the case should therefore be terminated by summary judgment, limited to that one undisputed question.

"As I understood my colleagues reached the conclusion when they granted Government's motion for summary judg- [fol. 1440] ment, that the Supreme Court had so ruled, and I stated in a brief oral dissent that I thought it had not so ruled and, therefore, I did not agree that summary judgment should be entered."

Of course, the decree that came down in November of that year from the Supreme Court was entirely consistent with that because of the Article III provision, that the adjudication, that the defendant companies had acted in concert in violation of the Sherman Act by fixing prices in gypsum board, not all of these other things, plaster, miscellaneous products, but gypsum board.

And the Supreme Court, significantly to me, when it dismissed U.S. Gypsum's appeal, entered an order at that time in which it affirmed the finding of law violation in exactly the terms of that Article No. III. In other words, limited to this issue.

And then if anyone could have any possible doubt about it, when the Supreme Court rendered its second opinion, as I stated yesterday, it began by explaining why it had dismissed our appeal and affirmed the order of adjudication of law violation.

This section has not been read in full, and it is just a couple of sentences, but at 340 U.S., at page 88, the court concluded this portion of its opinion by saying:

"However, we read the preliminary statement of the District Court to the decree and the summary decree itself as an adjudication of violation of the Sherman Act by the action in concert of the defendants through the fixed-price licenses, accepting as true the underlying facts in defend-
[fol. 1441] ants' proof by proffer. The trial judges understood the summary judgment to be as Judge Stephens had said, 'limited to that one undisputed question.' Judge Garrett and Judge Jackson agreed. That conclusion entitled the Government only to relief based on that finding and the proffered facts. On that basis we dismiss U.S. Gypsum's appeal from the decree, and on that basis we examined the Government's objection to the decree."

I do not see how the Supreme Court could have stated any more clearly what it was affirming in this adjudication, and that it was a very limited adjudication of law violation.

Judge Cole: Was the proffered proof before Judge Stephens at the time of this statement?

Mr. Spray: Yes, sir, it was. Just to relate that, we had been in June, 1948, on the remand from the first reversal, and it was at that time that the court suggested that we file our proffered proof, and the Government file its motion for summary judgment, which was done.

Then later in June, 1948 we had done that and we had the argument. And Judge Garrett and Judge Jackson held that the summary judgment should be granted. The time that Judge Stephens was speaking of was when we were back there in June of 1949 arguing whether the decree should be a broad, sweeping decree or the adjudication a broad, sweeping adjudication, or this narrow adjudication which finally came out in Article III.

As to the defendant petitioners' attempt to make a mock-
[fol. 1442] ery of the Supreme Court's assertion that it accepted as true the underlying facts because of the fact that the court in its second part of its opinion did enlarge the provisions of the decree, they carried the point so far that in the argument yesterday it was stated that in its second opinion the Supreme Court had found as a fact—and I am reading from page 61 of yesterday's transcript where

Judge Rosenman said: "It found as a fact that the price of gypsum board was stabilized, that is, the patented gypsum board and unpatented gypsum board. It found as a fact that the production of open-edge gypsum board was restrained by requiring a royalty on it. It found that prices were fixed in the sale of plaster and miscellaneous gypsum products. It found as a fact that jobbers were eliminated. And it found as a fact that certain trade practices were standardized contrary to the antitrust law."

Of course, that ignores completely the fact that when the court turned to the matter of enlarging the provisions of the decree it did so with this language, which appears in 340 U.S. at page 90, after stating how they had accepted the truth of the proffered proof and the limited adjudication, they said at page 90, and I am quoting:

"We turn then to the Government's proposals for modification of the decree on the assumption that only a violation through concerted industry license agreements has been proved, but recognizing as is conceded by the defend-[fol. 1443] ants that relief to be effective must go beyond the narrow limits of the proven violation."

And then they went ahead to discuss these other things and did enlarge the decree but, certainly, there is no basis from that in saying that that meant they found, for example, let us take the matter that they found as stated in the transcript I just read from yesterday, that they conspired to fix the prices of plaster and miscellaneous gypsum products.

In the first place, with respect to that, if that had been the ruling, it is perfectly obvious that when the court affirmed this decree it would not have affirmed an adjudication, as it did in Article III, that the defendants had conspired, had acted in concert, to fix prices of gypsum board. It would have said of gypsum board, plaster and miscellaneous gypsum products, but it did not. It just affirmed the adjudication that we had acted in concert to fix prices of gypsum board.

Indeed, it is difficult to see how the Supreme Court could still be adhering to its statement that it made on the prima facie case that there was evidence that we had conspired to fix the price of plaster and miscellaneous gypsum products, when they accepted as true these facts, and these are taken

right from the proffered proof: That the defendants' prices for plaster and other unpatented products have at all times been highly competitive and were not in any way affected by the minimum prices established by the licensor for the [fol. 1444] patented board; that the so-called rebate provisions of the price bulletins were not promulgated for the purpose and did not have the effect of fixing or stabilizing the prices of plaster or other unpatented products, but were issued solely for the purpose of insuring maintenance by the licensees of the minimum price for the patented board fixed by the licensor and were protecting it against indirect reductions of that price by secret rebates; that the operations of Board Survey Company were confined to efforts to insure compliance with the licenses and the price bulletins issued thereunder and were undertaken solely to protect the rights of U.S. Gypsum under the license agreements and patents, and its activities were so limited, and that the defendants did not by complaints addressed to Board Survey or by any of its activities fix or stabilize prices of plaster or other unpatented products.

[fol. 1445] Those are all set forth in the proffered proof No. 52, 53, 58 and 59.

I do not think there could be much question but what those were facts which the court said it accepted as true.

Another illustration that can be made with respect to this point is this: If you read Article III of the decree which was before the court you will find that it said that the defendant companies have acted in concert in restraint of trade among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board and have monopolized trade in the gypsum board industry in violation of Sections 1 and 2.

I might just pause there to say that it is not as was stated yesterday that the court found that U. S. Gypsum had gotten a monopoly by the use of its patents. The monopolization is against all defendants who, of course, represented all of the gypsum board manufacturers east of the Rockies. But the point I want to make is this, that adjudication of law violation was limited to the eastern territory of the United States which, of course, was what it had to be because that was all that was charged in the complaint.

The territory west of the Rockies was not involved at all.

When the Supreme Court looked at this decree which limited the injunctive provisions to the sale of gypsum board in the eastern territory it struck that eastern terri- [fol. 1446] tory provision out and it made the injunctive provisions applicable all over the country.

Surely, it would not be contended by the defendant petitioners, I do not believe, that simply because the court did that in the relief that meant that the court had adjudicated that we had fixed prices all over the country, when that was not even charged in the complaint or before the court. It was not even in the case.

I just think that illustrates the error that they have committed in saying that simply because the Supreme Court enlarged the decretal provisions that meant that they had enlarged the adjudication of law violation which was actually involved in this case.

Accepting as true the defendants' proffered proof, certainly, took out of the adjudication those controversial issues dealing with the traditional abuses of the Sherman Act. It brought the case right back within the scope of the Supreme Court's observation in the first decree and which I think influenced this court in its judgment, and that was that even in the absence of the specific abuses which fall within the traditional prohibitions of the Sherman Act, it would be sufficient to show that the defendants acted in concert in restraining trade.

Upon the remand there were various forms of decrees submitted, as I said yesterday. And finally an agreed form [fol. 1447] submitted to the court, but in none of those decrees, those submitted by the Government, by National, by Certain-teed, by U. S. Gypsum, was there any change in this adjudication of law violation article which was limited as in Article III that we acted in concert, in restraint of trade in the fixing of prices on gypsum board in the eastern area.

U. S. Gypsum is not trying to re-litigate these issues. Its position is consistent and correct. And the defendant petitioners, we submit, were right the first time, and they are wrong now in this strange argument that they should be favored because they were found by the court not to be parties to a narrow adjudication of law violation, but they

were found to have been parties to a broad, sweeping conspiracy to violate the Sherman Act.

It seems strange argument before a court of equity. And I do not mean to encroach at all upon Judge Bromley's field here, but I do just want to pause to say this: It seems strange to me all through here that the Morton Salt doctrine which was for the benefit of the public was something that the courts intended law violators, whether on a large or small scale, to come in and claim the benefit of before a court of equity, and I think that seems even more incongruous when you consider that they must now base their claim for this equitable relief on the ground that they were not adjudicated of a narrow law violation, why, they were adjudicated as conspirators in a broad, sweeping [fol. 1448] conspiracy to violate the Sherman Act.

I would like to say a word about the basic purposes of the decree, because I think that is similarly important to the issue that is before the court.

In their original briefs, National and Certain-teed both conceded that the inherent power of a court of equity was a limited one. And they recognized—and that is the power I think they certainly relied on primarily in sustaining jurisdiction—it was a limited one—and that a court under that inherent power could not go in and change a decree and broaden it or do anything it wanted to. It had to be to effectuate the basic purpose in the original decree.

In considering this matter it seems again to me to be an appropriate starting point to turn to the adjudication of the Sherman Act violation in Article III which we have considered a number of times and, that is, that we acted in concert in restraint of trade to fix, maintain and control the prices of gypsum board and monopolize such trade in violation of Sections 1 and 2. That being the adjudication, it seems to me that the basic purpose must be to prevent the defendant company in the future from acting in concert, not only in the way that it did, but in other ways. And I say that the examination of the decree shows that that was done.

The prohibitory injunctive provisions of the decree are in Article V where the defendant companies were enjoined in [fol. 1449] the first decree from further performance of enforcement of the provisions of patent licenses, from

entering into or performing any agreements or understandings among them or any of them for the purpose or with the effect of continuing, reviving or restating any monopolistic practice, and from entering into or performing any agreement or understanding in restraint of trade in gypsum board in the eastern territory of the United States by license agreements to fix, maintain or stabilize prices of gypsum board or the terms or conditions thereof.

That decree, of course, was enlarged, but when you come back to the decree of May 15, 1951, which is of course the one that we are concerned with here, you turn to Article V again which has the injunctive provisions in it, the prohibitory injunctive provisions, and you will find there that while it is broadened to include, for example, gypsum products as well as gypsum board, and to include an injunction against restraints by license agreements or any other course of action, it is still dealing with this basic problem which I think was the basic purpose of the decree, because there the defendant companies are enjoined from entering into or performing any agreement or understanding among the defendant companies or other manufacturers of gypsum products to fix, maintain or stabilize by patent license agreements, or other acts or course of action the prices or the terms or conditions of sale of gypsum products sold or [fol. 1450] offered for sale to such other persons in or affecting interstate commerce.

And then there are several specific practices listed which are in 1, 2, 3, and 4 of Article V. And the defendant petitioners attempt to make considerable out of that, but they overlook the fact that none of those are prohibited except when they are done pursuant to such an agreement or understanding, namely, an agreement or understanding to fix, maintain or stabilize prices under the terms and conditions of sale thereof by license agreements or other concerted action.

The objective, I believe, of Article V and its effectiveness to accomplish the basic purpose of the decree is obvious. It was to prevent this further concerted action in the fixing of prices, as I have described.

I would also point out that Article V is applicable to all of the defendant companies. It dealt with equal force and effect with respect to all of the defendants. It made no

attempt to grade the defendants into different classes of law violators. There was nothing purporting to establish rights in one defendant to use the property of another defendant.

U.S.G.'s view is that it cannot be contended that preventing U. S. Gypsum from undertaking to collect for the uncompensated use of its patents was in any way a part of the basic purpose of this decree.

It is quite true that the license agreements were struck down, and that U. S. G. as a part of that relief was required [fol. 1451] to grant licenses, but not free of charge, but licenses for the reasonable value of the use.

And every suggestion that was made for licensing in this industry was on that basis, that it should be for a reasonable royalty.

The basic purpose, I submit, is being adequately served by the present provisions, the present injunctive provisions.

Judge Cole will recall, and the others undoubtedly have read the record, that at the June 9, 1953, hearing the court was assured by the defendant petitioners that there was not any charge of or thought of Sherman Act violations going on now.

The basic purpose of the decree is being accomplished without any implementation of supplementation or just plain broadening as is contended for by the defendant licensees.

It is, of course, most important to us to consider this question of whether or not this decree could possibly have been deemed to have enjoined U. S. Gypsum from asserting its rights in the good American way of a suit in a court of law. We contend that it does not in any way enjoin us from bringing these suits, and that such an injunction at this time would be an unwarranted broadening of the decree to cover matters not before the court at that time.

There could be little dispute as to the rules applicable to decretal provisions and their construction. I do not believe we have much argument about that. Injunctive provi- [fol. 1452] sions must be precise and specific. Injunctions are not decreed by implication. The requirement for explicitness is codified in the Federal Rules of Civil Procedure.

Rule 65(d), which is set forth at page 71 of our brief, and which reads:

> "Every order granting an injunction and every restraining order shall set forth the reasons for its issuance, shall be specific in terms, shall describe in reasonable detail and not by reference to the complaint or other document the act or acts sought to be restrained."

It is an equally well settled rule that the effect of a decree as an adjudication conclusive upon the parties is determined by the issues actually presented and determined by the court and intended to be determined by the court. So that even broad language when subsequently construed will be read strictly in the light of the actual controversy that was before the court.

Tested by these rules it is our contention that there is no basis for claiming that the decree of May 15, 1951, enjoined U. S. Gypsum from bringing these suits.

Where is the specific injunctive provision against our suit? Neither the Government, nor the petitioners can point to any language that is in anything like injunctive language against the bringing of these suits. They are compelled to rely solely upon the provisions of Article IV.

[fol. 1453] Each of these license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void.

Judge Worley: I wonder why they used that very broad term "unlawful" there.

Mr. Spray: I think for two reasons. It was following the statute, to begin with. And in the second place, it is exactly the language of the Masonite decree which had been handed up to this court at the time of the June, 1949, hearing. That would be the best answer I can give you.

I think I can demonstrate how untenable that contention is by just suggesting this: Suppose this decree had stopped with Article IV, just had the first four Articles. Would anyone possibly contend that the defendants were enjoined from doing anything? I am sure that the Government would not say that Article V with the injunctive provision was surplusage in this decree. And I am sure they

would insist upon having it there, although in Article III it is adjudicated just as in Article IV there where it says, that we have asked in concert in restraint of trade to fix prices in gypsum board and monopolize board in violation of Sections 1 and 2 of the Sherman Act. But that does not constitute any injunction, and no one could possibly seriously claim that it was an injunction.

Of course, after declaring that the injunctive provisions come along and supplement this declaration by enjoining [fol 1454] us from doing anything that would constitute another violation of that sort.

By the same reasoning I say that Article IV simply, because it declared these license agreements unlawful, it not an injunctive provision unless there is an injunctive provision put in the decree, as it is put in many decrees that the patentee is enjoined from suing on the license and is enjoined from suing for infringement of its patents prior to a certain date.

The defendant National, to be specific, in their brief cite scores of cases from 1946 to 1952, where such a provision was put in the decree, but to me that is not persuasive here because the fact of the matter is that it was not put in this decree. And I think that the fact that it was of such common usage, where the court thought it was necessary, argues against it, makes it significant that the court chose not to put it into this decree.

[fol. 1455] There is another reason why this article for argument cannot be a foundation for this strained construction that is being urged, I submit, by the Government and by the defendant petitioners.

This language, as I stated to the court, was first suggested to the court at the June 14, 1949, hearing. A copy of the Masonite decree had been handed to the court as the decree that had been entered by another U. S. District Court in a case where there had been a narrow adjudication of law violation. The defendant licensees made their presentation.

Mr. Finck handed up to the court a schedule by which they would like to be heard, saying that the defendant licensees had worked out a schedule for the presentation of their views. Mr. Finck was the first to speak. He representing National.

And after joining wholeheartedly with U. S. Gypsum's argument that had been made in favor of the narrow law adjudication, he did take issue with certain provisions of the U. S. Gypsum Company decree and said that he felt that the whole of the license agreement should be declared illegal, rather than just the minimum price provisions which we had in our decree.

In that connection he said, at page 8192 of the transcript that "the U.S.G. decree only strikes down the minimum price provisions, and they leave open everything else. They do not disturb the other parts of the present agreement.

> [fol. 1456] "Chief Judge Stephens: For example?
>
> "Mr. Finck: For example, the claim for royalties on the manufacture of unpatented products.
>
> "Chief Judge Stephens: What others, Mr. Finck? I am asking only to get in mind your point—what other items?
>
> "Mr. Finck: Well, I have no other specific ones. There may be many of them, but that is one."

Mr. Miller, representing Certain-teed, was the next to appear at that hearing. This is the June 14, 1949, hearing. He started out by saying that he agreed with the argument that the adjudication was a narrow law violation. But he still felt—I think it has to be admitted—that the Supreme Court has found that the license agreements and price bulletings were violative of the Sherman Act; therefore, they are illegal and they cannot be clothed with legality by reason of the fact that the parties did not intend a violation of the Act and relied in good faith on the General Electric case.

Then later in his argument, Mr. Miller said that he thought that with some slight change they could get together with the provision of the Government on the matter of further licenses. And when he was asked about that, whether he was going to come to the modification that would be required in the decree, Mr. Miller said at page 8206:

> "We have already taken care of that, and [fol. 1457] Mr. Dallstream who will follow me will

present to Your Honors the exact changes we desire to make in both decrees which would give us the decree we would be satisfied with and which we hope that Your Honors will adopt."

Again, at page 8209, when another question was asked, Mr. Miller said with regard to the Masonite decree:

"I think I would like to defer any further statement about that, because Mr. Dallstream who was very active in that case representing the licensee there is going to follow me and will also present in his statement the exact changes we feel ought to be made in the decree."

In those decrees, meaning the ones that were before the court.

Mr. Dallstream then spoke, and he was attorney for Celotex Company, who are not before the court at this time, because as Your Honors will recall at the June 9, 1953, hearing, the attorney for Celotex appeared here and said they were not sued because they had the understanding and agreement with U. S. Gypsum that they would pay the royalties and they had set up a reserve fund—they would pay it if determination was that the other licensees should pay it.

Mr. Dallstream spoke about his experience in the Masonite case and how they had this Clause 4 to cut out all of the [fol. 1458] license agreements and start again in the making of new license agreements and had done that, and presented the new agreements to the court.

He made this significant statement:

"In order that U. S. Gypsum Company will have no misunderstanding of my position I want them to know that my suggestion is in no sense based on any hope or desire on my part to get out of any license fees during any interim period, and if we can agree upon an appropriate license agreement as far as my client is concerned, we are willing to let the royalty rate, whatever it is agreed upon, apply back to the time when we ceased paying royalties. I just want to make it clear to all that we are not attempting by this declaration of illegality of them to find some way of avoiding

the license fees which during this period none of us have paid."

The defendants say he was not speaking for them. He says, "as far as my client is concerned, the agreement can date back," but it is pretty broad language and this is the man that was presenting at least for Certain-teed the provisions they thought should be in the decree.

> "I want to make it clear to all that we are not attempting by this declaration of illegality of them to find some way of avoiding the license fees which [fol. 1459] during this period none of us have paid."

And the defendants, National and Certain-teed, at least, do say that he was speaking for them at one point, but only when he said at page 8225;

> "I think that fully expresses my views except the fact that I want to again call the court's attention to the fact that the language of Article 4 which I suggest was taken directly from the Masonite case which reads as follows, 'that each of the following agency agreements' "—they were agency agreements there rather than license agreements, et cetera—"is adjudged unlawful under the anti-trust laws of the United States as illegal, null and void."

[fol. 1460] Judge Worley: Where is that from?

Mr. Spray: That is from page 8225 of the transcript, the hearing on June 14, 1949.

Continuing with Mr. Dallstream's language, "I think that disposes of all of the problems and the confusion which Mr. Finck and others have been laboring under. I do not think any of us want to do anything that is improper so far as our past royalties are concerned, once that matter has been determined and license agreements have been taken care of, and we ought to have this thing either fish or fowl."

Mr. Rippey, then speaking for Ebsary as he is here for Ebsary, gave his reasons as to why this Article IV should be included, and he said with respect to the license agreements, this is at page 8228, "We feel that they should be canceled in their entirety, not parts of them. The bargain that was

made by the licensees, at least by Ebsary Company, was with respect to all of the provisions. If the court were to strike out some it would amount to making over the agreement which the defendants made, and the contract as a whole was the bargain, not in parts."

Mr. DeWitt spoke for Newark, and he assigned three reasons why Article IV should be included, at page 8241, so that it seems to me a reading of the Supreme Court must indicate that the Court did not contemplate that this court would try to winnow out of the wheat from the chaff and decide which of the provisions of existing license agreements are valid and invalid.

[fol. 1461] It seems to me that the Supreme Court clearly was of the opinion that the agreements as a whole were invalid.

Then a second one was that it would cause great confusion in trying to renegotiate licenses if there was dispute as to what was legal and what was illegal. That is, he said on page 8242, "That is not merely an argument made for the sake of making the argument as an academic enterprise. I think it has practical implications, because when we come to negotiate new license agreements, if this court should attempt to separate price-fixing provisions as illegal from the other provisions which are legal, we will be met in the negotiations of new contracts with the contention that provisions in the existing contracts which are not clearly price-fixing provisions have the blessing of this court. For example, if this court takes the position that only price-fixing provisions are condemned, then what are we to say as to the provision in the existing contracts to the effect that the royalties are to be payable whether the patents are used or not?"

And finally he gave as a reason on page 8243, a final reason why this provision should be included in any decree. And by this provision he meant Article IV. That is furnished by the example of the Masonite case where, as Your Honors have already been informed, the decree expressly provided that the agreements were null and void.

Later in reply argument Mr. Knuff, for the first time, suggested that they probably would want to amend their [fol. 1462] decree by putting that provision in, but there was no statement that its purpose was to act directly, in-

directly, or in any possible way as an injunctive provision against suits for the recovery of the use of our patents.

I have taken the time to read that because I think it is most significant, that in presenting this Article IV to the court no one, neither the Government nor any of the defendant licensees, made the slightest suggestion of a purpose such as the purpose that is being argued, and such as their whole case is based upon today, that that purpose was to enjoin suits by U.S. Gypsum Company.

Judge Stone: May I interrupt you? In that connection, I notice that on the page beginning on page 25 and going over to pages 26 and 27 of the National reply brief, National discusses the Dallstream situation. On page 26 it says U.S.G., after not before the Dallstream statement of June 14, 1949, made not passing but repeated reference, and so forth. And then there is a purported quotation a little lower on the page.

What significance, if any, do you give to that situation of the time of those statements as there stated, if you concede that that is accurate there?

Mr. Spray: I believe, if Your Honor please, that it has little significance. Certainly, it has been blown all out of proportion by the defendant petitioners. That is included in this memorandum that was handed up to Your Honors yesterday.

[fol. 1463] The fact of the matter was that during the course of the argument Mr. Connelly, arguing for U.S. Gypsum, had made that little prod that, perhaps, why they were wanting Article IV was thinking that it might do them some good in defeating royalties they had not been paying. That was followed by this argument of the defendant petitioners which I have read in some detail, including the Dallstream article.

Following the decree, National and Newark both with leave, of course, filed a memorandum urging their views with respect to a decree, and both had asked for this language of Article IV. Neither one of them saying anything as to the purpose being to enjoin our suits.

This memorandum was in reply to the National and Newark memo. And in that we again took this prod at them that they must think that that is going to help them in any suit to try to recover past royalties. That must be their purpose.

We did not say, as has been represented here, that we conceded that that would be the effect of that. We were merely saying or throwing out the possibility that that is what they thought might be the effect of it. And we were trying to prod them out of the bushes to make a declaration that that is what it was, but they never came out until the filing of these petitions.

So that I feel that that statement is not too significant in this case.

Judge Cole: Did not Mr. DeWitt argue at the time to the [fol. 1464] contrary, as he stated yesterday, as to the effect of this language?

Mr. Spray: Yes, Mr. DeWitt argued that.

Judge Cole: Of the Newark Company?

Mr. Spray: Of Newark, yes. He was the one that stated the three reasons. He thought that the Supreme Court's opinion had declared them illegal.

Secondly, it would avoid the difficulties in executing new licenses. And the only illustration he gave was whether or not the provision for royalty on all board would be bad.

And the third was we ought to follow what was done in Masonite. He did not say anything about it having any injunctive effect at all.

Judge Worley: Do you agree with Mr. DeWitt's analogy that he used yesterday that the illegal use of premises or the lease of premises for an illegal purpose—do you recollect that?

Mr. Spray: I do not quarrel with his analogy, but I do think it does not have any bearing here. Certainly there is nothing illegal, there is nothing illegal about a license to use our patent. And there is nothing illegal about paying for it.

Judge Worley: I thought that he took the position that under Article IV it was unlawful, illegal; consequently, you could not collect it.

Mr. Spray: That is the position which is at issue. It is not in issue. They have not filed an answer in New York, [fol. 1465] but it is an issue out in the Iowa court which we will have to thrash out there. We contend that it can be distinguished. As careful lawyers we would have been remiss had we not included that count out in the Iowa case.

In the National reply brief, at about the place where

Judge Stone called my attention to, page 24, reference is made to an amended prayer which the Government had injected in this case back in March, 1943. And that was that the defendant companies, not U.S. Gypsum, but the defendant companies, and each of them be enjoined from bringing any action for infringement of any patent or patents now owned or controlled by any of the defendants or hereafter issued on pending applications now owned or controlled by any of them; and from attempting by suit or otherwise to collect royalties or license fees or profits for the use of patents now owned or controlled by any of the defendants or hereafter issued on pending applications now owned or controlled by any of the defendants relating to gypsum products or in any process or machine used in connection with gypsum products until it is made to appear to the court that all improper practices have been abandoned, and the consequences of all misuses of patents have been dissipated.

Well, they say that since that prayer was informally withdrawn, then it was adjudicated by the court, and that Article IV meets the requirement of that prayer that we be enjoined. Of course, just reading the language of that [fol. 1466] prayer and the language of Article IV shows that that could not possibly be the type of decretal order which is being asked for in the prayer of that sort. What they are asking for is the type of order which, as I have readily conceded, is found often in cases but not in this case, that specifically includes an injunction against suing for royalties on the contract that has been declared illegal and against suing for infringement of the patents.

I say that the only significant thing as regards that provision is that, well, it has no significance. Certainly, an abandoned prayer can have no significance, unless it be to claim that the court had rejected the request.

There is, of course, an inconsistency in National's contention that Article IV in the light of that language should be considered as an adjudication, because at that time, as they say on page 25, that was sufficient then because the only claim U.S.G. had indicated it might make was for royalties under the license agreement.

Well, back at page 43 when they are trying to say that the repudiation of the licenses in 1948 was not significant, they

say, "Though some of the defendant licensees had to pay royalties after March 8, 1948, that was a unilateral decision in which U.S.G. did not concur, for U.S.G. constantly made clear its view that it remained entitled to compensation for the use of its patents during this period."

[fol. 1467] Whichever of these inconsistent positions National should ultimately choose to stand on is immaterial. The fact remains that all defendant petitioners were on notice. And the contention that nobody asked for a specific injunction because no one thought U.S.G. was going to seek compensation is without foundation and is unsupportable.

Of course, the defendants show their lack of faith in this contention repeatedly. In National's brief, for example, it said after arguing that that must be taken as an injunctive provision. In any event, it is clear that the declaration contained in Article 4 that these agreements are illegal, null and void is sufficient basis for a specific injunction now against enforcement of the agreement. The lack of a prior injunction against enforcement of these agreements might conceivably stand in the way of a contempt citation against U.S.G. It certainly does not stand in the way of a specific injunctive implementation of that declaration.

That is from the National brief. Later on in that brief it is stated:

> "In any event, there is a real question whether in this case, in a case such as this in which a broadening of the decree is sought, changed circumstances must in fact be shown."

And in the Certain-teed brief it is stated:

> "To argue that because the decree failed to [fol. 1468] contain an injunction preventing the enforcement of such illegal, null and void agreements is an absurdity and should not be countenanced by the court. The absence of an injunction against the enforcement of the illegal, null and void agreement cannot stand in the way of a specific injunctive implementation by this court now."

We respectfully submit that it is perfectly clear that this court had no intention of enjoining U. S. Gypsum from the

bringing of these suits which have been brought. Whatever may be the ultimate decision as to the right of U.S.G. to recover on these suits, the federal courts in which they are brought certainly have jurisdiction and are quite competent to determine that question.

And so I respectfully submit with respect to that point that there is no provision, and you can point to none—you can read none of an injunction against us in bringing this suit. I do not think that the court had any thought on the part of its basic decree of penalizing U. S. Gypsum in that case.

And the language of Judge Jackson and Judge Garrett at the close of that argument on June 14, where they made so clear that there is not any question of bad faith, everybody in good faith here relied on the General Electric case, does not show any spirit, I submit, of an intention to deprive U. S. Gypsum from compensation for the use, any use [fol. 1469] which its co-defendants and equally guilty co-defendants were actually making of those patents.

A word now with respect to the jurisdiction point. I have taken so much of my time that I must try to cut that down.

Judge Stone: May I ask you before you leave that point and in connection with what you have been considering, this question: Take the two Article 5's, that is, in the 1949 decree and in the final decree, those are the specific injunctive articles in the decrees. I assume the language used by the court in framing each of them was carefully chosen and subjected to the scrutiny and suggestion of counsel.

Do you attach any significance to the omission in the final decree of the use in the 1949 decree of the words "further performance" or enforcement of any provision of the patent licenses? And I am accenting the word "further."

Mr. Spray: I understand that.

Judge Stone: Has that any significance in the decrees?

Mr. Spray: I thought it had only this significance, and that was that when the Government went before the Supreme Court on its second appeal it submitted a form of decree which had revamped this Article 5, and which had omitted that provision. I, of course, do not know why they did that.

It was stated in the Supreme Court argument by Mr.

Weston that it was unnecessary. As he called it, painting the lily, because the licenses had been declared null and void. [fol. 1470] I certainly understood him to mean in that argument that when you declare them null and void there cannot be any further performance in violation of the Sherman Act under those things. It was painting the lily to further enjoin performance.

I do not think actually there was any thought with respect to the matter of further performance in the sense of trying to collect for any past use of the patents.

[fol. 1471] I am influenced a bit in that from the fact that the Government's first decree which it presented here in November of 1948, dealt with the matter of cancelling the licenses in this way: It had provided in Article VI that the U. S. Gypsum should be compelled to give licenses at a reasonable royalty, and new licenses. Then it provided in Article VII of that proposed decree that the old licenses would be cancelled upon the execution of the new licenses or 60 days after the effective date of the decree. In other words, it gave 60 days to work this out.

And then it provided that there should be no further performance or enforcement of the license agreement after the effective date of the cancellation, which you see would enable the new licenses to fit in. And there was not any provision of that sort.

Now as they revised this thing they dropped out that provision about the cancellation, and no further provision for enforcement after the cancellation date. That just dropped out of the decree.

It seemed to me that that contemplated that U.S.G. and its co-defendants would collect the royalties all through. It certainly did not prohibit it. I think it had a setup that permitted it and, consequently, when they deviated from that way of handling it they had tied it in so definitely, this further performance and enforcement, with that cancella-

[fol. 1472] tion date which was off in the future here some place, it just seemed to me that they dropped it out of the other decree as unnecessary, because certainly if you had enjoined the defendants for everything that they were enjoined from doing in Article V, there could not be any further performance in violation of the Anti-Trust Act under those cancelled licenses.

Judge Stone: Or enforcement?

Mr. Spray: Or enforcement, that is correct.

Now with respect to the jurisdiction question, as I say, I think that that has been pretty fully briefed in point 1 of our brief.

This is a special statutory court that after years of litigation felt that it had entered a decree here which was sufficient, that had been approved by all of the parties. And if you will read the proceedings of the May 15, 1951, hearing, when this approved, it was with great care that the court interrogated each of the parties to be sure that they were satisfied with this decree. And for all purposes they had ended this litigation except only with that reservation in Article X which was that jurisdiction was reserved for any of the parties to come in to apply to the court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate. One, for the construction or carrying out of the decree; and, two, for the enforcement of compliance therewith.

[fol. 1473] When the defendants who joined in that decree come forward with petitions seeking to raise as we feel new issues the question naturally arises as to the jurisdiction of this court. The petitions when they were filed by their very language were obviously filed under this Article X, but when the briefs were filed it seemed to me quite obvious as you read the briefs of National and Certain-teed, they have deviated from reliance on that. On the other hand, have turned to the inherent jurisdiction of a court of equity.

We handled that matter of abandonment of Article X in our brief. And in the reply briefs there really was not any reply made to our distinguishing of those cases, because we do point out there that all you have to do is to read Article X as compared with some of the reservations of jurisdiction of other decrees where it is perfectly clear they reserved the right to modify or change. There is language in decrees which we have in our brief.

On the matter on which reliance was placed by the defendant petitioners we raise no question of the power of this court to enforce its decree. There is not the slightest question about that. Our point is what is being asked is not

a matter of enforcement of this decree. For that reason we think all of the cases cited are not in point.

As to the question of the inherent power, we do not dispute that. We do think it has some limitations and that [fol. 1474] defendant petitioners recognize that it has. One of them is that whatever is done under this inherent power must be in aid to effectuate the basic purpose of the decree. If you are for something that was not a part of that decree or a basic part of it, then the inherent power is just something nice to argue about, but it has no pertinency here, in our position.

I do not raise any question but what this court has certainly the inherent power of any court of equity. I make no point, because it is a special statutory court that that power would be any different here. We do feel that a true understanding and analysis of the Swift case would show that what they were talking about there, as far as inherent power was concerned, was to grant some relief in the future where the claim was that changed conditions made the decree a hardship upon the defendants.

As to the paramount jurisdiction of this court, well, I think that is more a suggestion. If this court feels that it has jurisdiction I think it could intercede here.

I do believe, however, that there is not anything to the point that there is no jurisdiction in the court in Iowa to hear this contract suit, the infringement suit that has been filed out there. For example, in Iowa, or in New Jersey and New York. I just think that there is nothing in the law that I have seen that has been cited that says that this court, once having heard this case ten years ago, must be the only court [fol. 1475] in which questions can be raised in the future with respect not to the issues that were really before the court back there, but rather collateral issues that have arisen between co-defendants as to the right to pay and the right to collect for the use which one of the co-defendants has made against another of his property.

I have only one thing more which I would like to mention. That is with respect to this large document that was filed yesterday. I am not too happy about being served with documents of this sort with the suggestion that care has been taken in preparing it, but if anything is wrong I am sure that we will call attention to it. I have tried to go over

this. I do not purport to be able to give any detailed discussion of it, but there are one or two things. Just briefly, which struck me that I think should be called to the court's attention.

On page 2, the column under the plaintiffs' original proposed decree of November 27, 1948, they have a notation that defendant licensees, that is, in the footnote, National, Certain-teed, Newark, Ebsary and Celotex, joined with the plaintiff in support of Articles III, as amended, VI and VII of this decree. It seems to me that in fairness when in the next column they set up U. S. Gypsum's original proposed decree, they should have also put a footnote that the defendants National, Certain-teed and Ebsary by written memorandum joined in all of the provisions of this decree, [fol. 1476] except Articles VI and VII. I did not say Newark, I do not believe. I said National, Certain-teed and Ebsary.

Mr. DeWitt: Not Newark?

Mr. Spray: That is right. I think that would be a little fairer than this. That was accepted by those three defendant petitioners in all respects, except only Articles VI and VII.

Another thing, turn to page 4: It seems to me that while it is all there, if you read it carefully, but looking at this Article III, the italicized portion up there. That, of course, was not in the original proposed decree of November 27, 1948, at all. It was put in later, as I say, in the footnote. And they have dropped out a provision that was in the decree of November 27th, 1948, about the cancellation to be effective upon the granting of their licenses or 60 days after the decree, which I mentioned. I think that that is a little confused.

I turn here to page 14 where they have the history of the findings with respect to unpatented board. One of these columns states the Supreme Court opinion of 333 U.S. 364. In none of that is there any suggestion that that could only have been with respect to the prima facie case. And there is no quotation at all with respect to the pertinent paragraphs which both Judge Rosenman and I have read to the court during the course of this argument.

Then again in the fourth column on page 15, the middle [fol. 1477] column, there they purport to say everything

that the Supreme Court has said in its 340 U.S. 76 about this proffered proof. Well, they do not have anything in there—and the purpose, I suppose, is to try to show that this court held and made findings in the second opinion with respect to the patented board—they do not say anything about the limited jurisdiction and the understanding that it was limited to the one undisputed point which I read from the opinion on page 88, nor do they read the part of page 90 that says in approaching the matter of relief that they did it with the understanding that the relief should go beyond the proven violations of law. I read that to the court this morning. I think that is not exactly a fair presentation there.

That, of course, runs through all of these last pages. Nothing is said about the Supreme Court opinion being prima facie and what it said there. Nothing is said about the omitted portions of 340 U.S. in the second opinion which I commented upon.

And I noticed also that in the first column of page 19 which is headed, "The Proffered Proof" by U. S. Gypsum with respect to plaster and miscellaneous gypsum products, they have not included paragraphs 46, 52, 53 and 54 which are certainly pertinent to that provision.

That is, I think, possibly all that I care to say about that. [fol. 1478] I only suggest that might be enough to raise some question as to just how much value this may be to the court.

Perhaps you will have to work from the other documents.

Thank you for the courteous and patient attention.

Judge Stone: The court will take a recess of 10 minutes.

(Recess.)

Judge Stone: You may proceed.

ARGUMENT ON BEHALF OF UNITED STATES GYPSUM COMPANY

By Mr. Bruce Bromley

Mr. Bromley: May it please the court, my first submission this morning will be that this court should not enlarge or interpret its existing decree to resolve all or any of the

many questions pending before the District Courts of the three states involved.

The function of this court is to preserve the public interest and not to referee any disputes between a group of companies, all of which have been adjudged equally guilty in Sherman Act violation.

And I say it makes no difference essentially whether the determination of the Supreme Court was broad or narrow. So long as this court feels that the public interest is protected by the existing decree, then it is not called upon, I submit, to change those provisions. And nobody makes any suggestion here that there is today any Sherman Act violation. Indeed, the only factual adjudication in this present [fol. 1479] Government suit relates to a period of time prior to 1943. That is all that has ever been litigated.

There is not any evidence here, there is not any showing here, and there is not any contention here that anybody of this group has violated the Sherman Act since 1943. And everybody knows that not a price has been fixed in this industry of any product under a license or otherwise since 1941, 13 years ago.

But I think it does help to realize that the adjudication which this decree sought to remedy was the very narrowest kind, as Mr. Spray has said.

And because I fear that there may be some slight confusion as to precisely what the Supreme Court decided I should like to trespass upon your patience by repeating the contentions so ably argued by Mr. Spray in the light of a homely illustration.

I took the lead in the defense before this court at the trial —and it lasted five or six long months, and a great number of living witnesses were produced and examined and cross-examined by Mr. Knuff, by me and my associates. None of the gentlemen who have spoken from this table were at the trial in the sense that Mr. Knuff and I were. But those five or six long months were consumed with merely the Government's presentation of this controversy. And they consisted of thousands of pages of living testimony and hundreds of exhibits.

When the Government rested we moved to dismiss it on the grounds that no prima facie case had been made out. [fol. 1480] The court granted it. The Supreme Court re-

versed it. And we went back to this court, in the Court of Customs and Patent Appeals.

I was ready with my witnesses, because among the witnesses who had testified for the Government were men like Mr. Brown who testified to conversations with Mr. Sewell Avery, the president of my company, who testified and had written memoranda about various transactions and group meetings and discussions over the years.

Mr. Avery was then and still is alive and kicking. I almost said especially kicking. But he was there, ready to answer the testimony that had been offered against us, as with many witnesses. And this court in effect said to me, "My friend, there is nothing you can do. There is nothing that any of your witnesses can say. There is no document you can put in evidence. There is nothing you can do. And we will not hear you. Of course, you can tell us what you want to do. You can make an offer of proof."

Why did the court take that position? The court took that position because the Government, Mr. Knuff, elected to avail itself of the provisions of the summary judgment rule in the Federal Rules.

What does that rule say? Summary judgment will be granted where there is no disputed issue of fact.

Every fact which was supported by evidence taken during the five or six months of the Government trial was disputed [fol. 1481] except one—except that there were six pieces of paper signed by the parties before the court which contained clauses giving the licensor the right to fix and determine the prices at which the licensee should sell the patented goods after manufacture under the patents.

That I could not dispute, nor could I dispute that up until 1941 the licensor under the General Electric case and pursuant to the provisions in the licenses had fixed the prices.

The Government said, "That is enough for us, Mr. Defendant. We move for summary judgment on those grounds. And we do so because there is a hint in the Supreme Court decision," which had ruled broadly contrary to the decision of this court, that there was evidence supporting every one of those broad charges of the great broad conspiracy that was alleged in the complaint, but there was a hint that it might be enough to establish a violation, just to show that there were licenses issued to everybody in the industry

which were identical and each of which had price-fixing clauses in them, and the prices had for a period of time at least until after commencement of suit been fixed.

So the Government elected to stand on that.

And that is the only adjudication that there was. The motion was granted to the one. The Supreme Court said that was right. And that is why it seems to me to be so significant, as Mr. Spray pointed out to you, that we are not [fol. 1482] guessing about this, because in the second Supreme Court opinion after final judgment had been granted the Supreme Court said, as Mr. Spray read to you, and it appears at 340 U.S., page 88, and I quote:

> "We read the preliminary statement of the District Court to the decree and the summary decree itself as an adjudication of violation of the Sherman Act by the action in concert of the defendants through fixed price licenses, accepting as true the underlying facts in defendant's proof by proffer. The trial judges understood the summary judgment to be as Judge Stephens said, 'limited to that one undisputed question.' Judges Garrett and Jackson agreed. That conclusion entitled the Government only to relief based on that finding and the proffered facts. On that basis we dismissed U.S.G.'s appeal from the decree and on that basis we examined the Government's objection to the decree."

And that is why in the decree itself—and you have it in a separate document or as Appendix A to our brief, the only adjudication of violation—and this has been in all of the decrees—is in Article III on page VI of Appendix A to the Gypsum brief:

> "The defendant companies have acted in concert to fix and maintain and control the prices of gypsum board and have monopolized."

That is the adjudication—that is the only adjudication. [fol. 1483] And it is as narrow as it is possible to conceive it, it seems to me. That is why this court, when it was faced with the task of framing the relief in 1951 gave a very narrow injunction. And they were quite right in doing it.

I say to use Mr. DeWitt's language, the transaction that

was condemned was the transaction of having a multiplicity of fixed-price licenses, and that is the only transaction condemned.

There was no adjudication that anybody misused any patents. There was no adjudication or thought of disenfranchising U.S.G. from realizing upon its property.

This in spite of the fact that the Government, pursuant to this broad conspiracy, had a prayer in its complaint to that very end. That prayer is set out on page 24 of the National reply brief. And that prayer which the Government stuck into the suit just prior to the opening of the trial, page 24 of National's reply brief, was that:

> "All of the defendants be enjoined from bringing any action for infringement"—

that is subparagraph (k) at the bottom of page 24—

> "that they be enjoined from attempting by suit or otherwise to collect any royalties, until it shall be made to appear that all of the consequences of patent misuse have been dissipated."

So the court knew full well what the problem was. There was not any mystery about it. It was asked to declare a [fol. 1484] misuse of the patents and to disenable us and all of the defendants from realizing any benefit from these patents until we should have affirmatively established that not only the misuse had ended, but that all of the consequences, if there were any, had been completely dissipated. And the court refused to do any such thing.

Of course, the relief that it granted nobody can quarrel with this, was a little broader than the adjudicated wrong. It extended west of the Rocky Mountains, although there was no proof we ever did anything wrong there. We do not quarrel with that. That is only Hornbook law to make sure that the central violation is not repeated. Any court will take pains to make sure that the injunction is broad enough to prohibit its resumption in any form. That is why the relief is a little broader, but it is not very much broader.

There is nothing in it that either adjudicates a patent misuse or says that you cannot get compensation in any form for the use of your patents.

It is sometimes surprising to me how reasonable men can draw directly conflicting inferences from the same set of admitted facts.

[fol. 1485] Judge Rosenman called your attention to page 6 of our memorandum submitted back in 1949. He handed you a copy of it. And he read to you or called to your attention that little short paragraph just above the middle of page 6, which says as follows:

"The defendant licensees can have no purpose in making the suggestion that each patent license be adjudged illegal except to obtain some advantage with respect to the use of the patents. They apparently believe it will relieve them from accounting for anything done either before or after the Supreme Court's decision."

I draw the inference from that statement that the court's attention was drawn to the fact that there was here in question a conflict, a possible conflict, between the parties as to whether U.S.G. could collect royalties under these agreements, even though they had been declared illegal. And everybody knew we wanted to get our money. There never was any doubt about that. And in spite of that fact this court contented itself with declaring the contracts illegal and I think inferentially said, "Let the chips fall where they may. We are not going to stop this patent owner from an appropriate juri-diction getting compensation for his patents, if he can. We are not going to referee any private dispute between these defendants. The court in which the controversy is brought is competent to decide that. The principle of misuse and purge is well established in the law. Everybody knows the difference between a suit [fol. 1486] on a license and suit for an infringement. And those questions can be appropriate reserved to the time when they are brought up."

But let us approach the question directly. What does flow from this adjudication in the decree in Article III of illegality?

I was much interested to read in the Government's brief this statement on page 11, and before I read it, let me say I was much pleased to find that the Government agreed with us, at least, that this adjudication could not possibly extend any further than barring our suit on the express contract, but in that connection at page 11 they say this:

"Possibly U.S.G. will contend that if this court should conclude that its judgment does not bar U.S.G. from maintaining the quantum meruit and infringement claims asserted in its suits, the court should hold that its judgment does not bar suit to enforce the illegal license agreements."

Thus to me is shown the Government's concern with the difficulties which even its position creates.

What does flow from this adjudication of illegality? Is it merely that the contract cannot be sued upon as the Government says? Or is it, as petitioners say, that we cannot get compensation for our patents in any form?

We are not left in the dark as to what the consequences which this court intended should flow from that adjudication, because this court has solemnly said what they should be. And it said that in Article V, the natural place for it to say it.

[fol. 1487] And in Article V, as Judge Rosenman indicated again, going to Appendix A, it is perfectly possible indeed it is the correct thing to do to read those prohibitions with relation to the license agreements. Let us look at the first paragraph of Article V.

We are enjoined from performing, among other things, in the fifth line, we are enjoined from entering into or performing any agreement among the defendants by patent license agreements or otherwise which fixes the prices or the terms and conditions of sale.

The language was changed. We are not enjoined from enforcing any provision of that agreement. We are enjoined from performing any agreement to fix prices.

So in paragraph 1 we are enjoined from an agreement which classifies purchasers and the contention was made that our license agreements did just that.

We are also enjoined in 2 from refraining from selling products by agreement. And the contention was made that our license agreements did just that, by having a provision about whether we could sell to jobbers or whether the licensees could sell to jobbers or not, and at what price.

And so in the third we are enjoined from agreeing upon any delivered price, which again was contended at the trial to be a part of the price-fixing bulletin, to make the price basis all uniform throughout the industry.

[fol. 1488] And finally we are enjoined from policing the

prices of our competitors, which it was alleged we did by the Board Survey Company, to police and implement the price-fixing provisions of the licenses.

The injunction stopped there. That was deemed by the court to be enough, in view of the narrow adjudication to preserve the public interest.

And I think that it is clear, therefore, so far as this court was concerned itself, that U.S.G. was perfectly free at all times between 1948, the date of the first Supreme Court decision, and the final decree to charge a reasonable royalty for the use of its patents. And I think the adjudication of illegality, Article IV, must be read in the light of the adjudication of the offense contained in Article III, the offense being a price-fixing offense.

I say that the court was perfectly clear that we could get compensation for our patents in this interim period, because in connection with the Chief Judge's question, this compilation on page 6, the District Court decree of November 7, 1943, after enjoining the further performance of any of the provisions of the patent license—if we turn over the page—ordered us within ninety days to give these people new licenses and said, "You may charge them the same price you charged under the old licenses."

So that device which was later abandoned when these defendants came to meet to agree upon a decree, shows clearly [fol. 1489] that it was contemplated by this court in November, 1949, and as has been shown by Mr. Spray at a much earlier date, that the court knew, realized and was perfectly willing and indeed made it a condition, "If you get rid of the old licenses you can tack on to them a new license for exactly the same amount of money provided in the old license."

Now, if they thought we had misused our patents, that our patents could not be enforced, and we were disenfranchised from using them, would they possibly have made that kind of a performance? I say they would not.

So there is, therefore, no reason to change or expand your decree.

Let us look at it finally in one other aspect. Does anyone at petitioners' table claim that this decree enjoins U.S.G. from suing the Kaiser Aluminum Company which infringed

our patents from 1948 to 1951, but which was not a defendant in this suit? Where do you find that in this decree?

We have a claim against Kaiser, and these papers show it. We have got claims against others, too, not defendants, not parties to this conspiracy at all. But these patents are valuable and the people in the industry, seeing us struggle in the nets of the law, have gone in and disregarded them.

Does anybody say that we are enjoined from suing Kaiser? If so, where do they find it? Kaiser never had a license agreement. Kaiser disregarded us and has infringed our patents.

[fol. 1490] Should this court now anticipate that suit and try to change this decree entered in the public interest to resolve that potential loss? Should we now undertake a trial to determine misuse and purge and see what has happened since 1944 to date?

Why, the circumstances of each of these claims and cases is going to be different. It is unthinkable that this court should assume the burden of trying to anticipate all of the controversies which may come up.

We are suing Ebsary and Newark on patents which may or may not be under the license. There is a dispute between us. And we are suing them for a period of use after the final decree.

Should this court say, "Well, here is another dispute between the parties. We better get into that and resolve that now."

I say this court should not. Being an antitrust court it had no duty to inject itself into any such private area of dispute.

What are the questions that are raised by the pending litigations in the three courts? As I have indicated they are different in each one. They involved different patents. They involved different periods of time. Some after the date of the decree. But essentially they involve the validity of the patents, because our friends are now at this late date saying that our patents have been invalid all of the time.

They involved the question of infringement, whether the processes that they use actually come under the claims of [fol. 1491] our patents. There are many, many affirmative defenses, all of which can be summed up by saying that they are going to contend that we have misused our patents in

some way, and that either that misuse is continuing or its illegal effects are continuing.

Well, that kind of a defense has been raised in dozens of patent infringements and patent licenses ever since the Supreme Court decided the Carbide case in 1931. It was a new doctrine then, but it has become to be conventionally established now. And in almost every patent infringement suit nowadays you see that kind of misuse urged.

It involves the consideration of many facts and a great deal of evidence. That is the question that is pending out there in those suits.

What is the question that the petitioners are urging should be given consideration by Your Honors? What has happened since the decree in May, 1951, which requires reconsideration of that decree by the courts? Well, nothing but the institution of suits whose bringing has been forecast and foretold and discussed since 1948. The Government knew. This court knew. The petitioners knew.

During the last five or six years by the letters we wrote them, by the arguments we made, by the statements we made in court, that it was our position that we were entitled to compensation in some form for their use of our valuable property.

Is there anything new then except the actual implementa-[fol. 1492] tion of our threats by filing the suits? Is there anything new? Does anybody say there is any new violation which has been resumed or created? No.

The Government in appealing, at no time assigned any error to the 1949 decree which——

Judge Cole: Was any reason assigned before the court at the time it took the position that you had the right to such suits in the future?

Mr. Bromley: No, sir, I do not believe there was any argument about it. I do not think that the court felt it was concerned with it, more than to approve the form of license that we offered to the other side, and to say, "That is perfectly legal. You filed it in the court's office and we have read it and we approve it. And it is all right for you to offer it to anybody you want."

There was no discussion beyond what was there. I do not believe there was.

In this proposal that new license for the same old roy-

alty be given was not only made in 1949, it was made by the Government in 1948 in the very first proposed decree; that the old licenses be put to one side and new licenses be immediately taken out eliminating the illegalities at the old royalty.

Must it be said that misuse was adjudicated just because the final decree ordered us to grant licenses to anybody for a reasonable royalty? That compulsory licensing provision [fol. 1493] did impinge upon our constitutional monopoly because, as has been said here, under a patent we have a right to hold it and grant no license, and the court did order us to grant licenses.

Does it follow from that, that that is an indication that the court thought we had misused our patents? It does not. And I think I can illustrate it by Judge Wyzanski's decision in the recent Government suit against the United States Shoe Machinery Company case in Boston.

Judge Wyzanski found that the shoe machinery company violated Section 2 in that it had a monopoly. It had some ninety per cent of all of the shoe machinery business of the country.

The complaint charged that it had aggregated unlawfully and otherwise misused its patents. In his decision Judge Wyzanski absolved the company completely from any charge of any patent misuse, saying this:

"Defendant is not being punished for abusive practices regarding patents, for it engaged in none. Nevertheless, in order to protect the public interest and open the market completely, I order compulsory licensing for five years of its patents."

So the compulsory licensing provision does not create an inference that the patents were misused. The finding here, as in shoe machinery, is monopoly, and it is only natural that the relief, in order to make it easier for potential competitors and new business enterprises to get into this industry, they should be given the advantage of not being barred [fol. 1494] by our patents, because we did have a monopoly.

So I think it will do no good to argue that compulsory licensing in the decree imports misuse.

I still say that the illegality was merely that we had too many licenses with price-fixing clauses in them, each one

by itself being perfectly lawful under the General Electric decision.

Well, Judge Rosenman says, "You ought to expand and enlarge or interpret your decree because it has been done in so many other cases."

Well, as Mr. Spray says, I should think that was a reason operating the other way. If it thought necessary by the court which considered the relief in great detail here in the light of all of the circumstances it would have been put in.

It is true there are many decrees that specifically enjoined the defendants from bringing infringement suits.

There are many decrees which do not enjoin the bringing of infringement suits.

And your decree is such a decree, and I submit should not be changed.

Is there anything to the contrary in the Hartford Empire case? I think not.

In the first place the Hartford Empire case was a completely litigated case on both sides. No summary judgment.

And in the second place, the charge was a typical patent misuse charge, and the proof was a typical patent misuse proof.

[fol. 1495] There was, therefore, a fully litigated dispute on both sides and not a narrow adjudication, but a broad adjudication of complete conspiracy which had been completely litigated.

And when the decree came down there was an adjudication unlike the present case in the decree itself which read as follows:

> "The defendants have contracted, combined and conspired to restrain trade in violation of Sections I and II of the Sherman Act in respect to patents covering inventions embodied in machinery used in the manufacture of glassware."

When you come to look at some of the facts that were found there you find that Hartford Empire had acquired from others over 317 patents; that after acquisition it had shelved the patents and discontinued the manufacture of the patented articles in order to keep its monopolistic grip on the entire glass-making industry.

It was also found that these patents had been acquired

not for the purpose of developing them, but for the purpose of obtaining a more complete control over the industry and of eliminating its competitors.

So that Hartford Empire, far from supporting the petitioners, illustrates graphically the distinction between the narrow offense adjudicated here and the typically broad patent misuse defense adjudicated in Hartford Empire.

There was no patent pooling in the Gypsum case that could possibly be said to resemble anything in Hartford Empire.

[fol. 1496] U.S.G. acquired only two patents. The circumstances of which Mr. Spray has described, not for the reason of restraining competition—there was no such finding—but for the reason as the Government's own affirmative case disclosed that they were caught in a very serious infringement situation, and in order to settle the claims against them, were enabled to work out with the receivers who owned the patents a deal whereby they were purchased for a large sum of money.

In the Hartford Empire case it established that there was a control of prices, of both patented and unpatented products. That was litigated on both sides and was found by the court to exist.

That illustrates another point of distinction in this case.

It is true that the Supreme Court said prima facie the Government established that here, but when we came back to this court and offered to prove it was not true, that plaster prices, being an unpatented product, were always competitive, they were never fixed or controlled or stabilized in any way through the licenses or otherwise, the Government sought to put that issue to one side and make its motion under the rules for summary judgment, merely on the narrow issue that we had too many price-fixing licenses.

So that I say the Hartford Empire case avails the petitioners little, if anything.

But is it possible in any sense to say that this case [fol. 1497] involves a patent misuse? Well, I think I have tried to indicate that in my view it is not possible so to say.

What part did the patents, if any, play in this offense?

I think at worst all you can say is that these defendants

were held to have been a part of any unlawful combination for the purpose of fixing prices. Well, if that is so, is there any doctrine in the law which says to a member of that combination, "You cannot sue somebody who takes your property because you are a member of an unlawful combination?"

Well, the Supreme Court, as Mr. Spray indicated, answered that question in three different leading cases.

The first one was Connelly against the Sewer Pipe in 184 U.S., and it was held there that a customer who purchases goods from an unlawful combination of sewer pipe manufacturers which plainly violated the Sherman Act could not escape paying for the goods simply because he bought from a combination of competing manufacturers, existing and doing business and selling goods contrary to the Sherman Act.

Now later on in the Continental Wallpaper case, it had a variation of the situation. That is in 212 U.S. There was another illegal combination of competing wallpaper manufacturers. And their combination took the form of agreed upon contracts with jobbers by which the wallpaper was sold to the jobber, but on condition that the resale price of the jobber be in accordance with the directions of the com- [fol. 1498] bination, an illegal resale price-fixing case.

And the Continental Wallpaper combination sued a jobber on the illegal contract to enforce its terms and recover from him goods that were sold pursuant to the illegal contract and pursuant to the illegal fixed prices. And the court drew a distinction between wallpaper and sewer pipe, because it said in the one case the combination is seeking to enforce the illegal part of the understanding between the parties.

What are we doing here? Are we asking the District Courts to help carry out any illegal agreement?

We are not suing for one per cent of the price which we legally fixed, for we fixed no price. We are suing to compel these people to pay us on the basis of illegally fixed prices which we say they should have charged for their patented wallboard.

All we want is to get in some form the value of our property which they have used.

And the Supreme Court in the Wallpaper case said this:

> "The present suit is not based upon an implied contract of the defendant company to pay a reasonable price for goods that it purchased, but upon agreements to which both plaintiff and defendant were parties, and pursuant to which the accounts sued on were made out and which had for their object and which it is admitted had directly the effect to accomplish the [fol. 1499] illegal ends for which the Continental Wallpaper Company was organized."

That appears on page 261 of 212 U.S.

That is a fine line of distinction, I quite appreciate, but it is one which will have to be resolved by the District Courts in which our suits are pending. And it is one with which this court need not concern itself if its decree adequately protects the public interest, which I submit it does.

And I emphasize that in these suits we are not suing only on the contract—and I cannot forbear to call to your attention this fact, suppose we had included no count on the contract? Would it have been inconceivable that the petitioners might not have come in and said, "You cannot sue us for infringement, Bromley, or for quantum meruit—we have got a license. You cannot sue us for reasonable value when we have got a contract. And you cannot sue us for infringement when we have got a license."

Suppose they had said that? Does this court think I should have come running in here to you and said, "Look what these people are doing. They are defending on the ground that a contract which you said was illegal is a bar to my quantum meruit."

Well, I would not think of troubling this court about that controversy. And yet in effect that is what they are doing when they come in here and ask you to resolve the questions which are pending out there and which our litigation raises.

I said there were three suits which illustrated this fine [fol. 1500] line of distinction, the Sewer Pipe suit, the Wallpaper suit, and Bruce's Juices which has been so often mentioned here.

Bruce's Juices is a recent case in the Supreme Court.

Judge Worley: That is a five to four decision in that case, is it not?

Mr. Bromley: Yes, sir, I think it was.

It does not make it any the less binding.

Judge Worley: I was wondering if you distinguished such cases.

Mr. Bromley: No, I think that is a good authority for us, your Honor. I think it is good authority for us. Let us try to reduce it to very simple terms.

It is illegal under the Robinson-Patman Act to grant discriminatory discounts. And in Bruce's Juices the manufacturing company had sold to a customer some juice, and the customer had given promissory notes, but had not paid them.

When the manufacturing company sued the customer, my friend Mr. Thurman Arnold said, "The whole thing is illegal. You cannot get your money out of us. You violated the Robinson-Patman Act."

And it came to the Supreme Court. The Supreme Court said this: "If in order to prove his own case a plaintiff proves his violation of law, then no court will aid the plaintiff to recover."

That is at page 756. But the Court went on to say, "That is not the situation here. Because all the plaintiff has to prove here is that he has some promissory notes. They im-[fol. 1501] port consideration. But if the consideration be denied by the defendant, then the plaintiff would have to show only that the cans were sold and delivered to the customer at a stated price. And that is no violation of law."

Now I quote the Supreme Court: "It is only when the Court goes outside of the dealings between plaintiff and defendant and it is proved that the same kind of cans were sold to others at different prices within a relevant period of time amounting to a discrimination, a fact unnecessary to sustain the plaintiff's cause of action, that the basis of the defense asserted here appears."

Your Honors, I think that is pretty appropriate to this situation. All we say is that we want to be paid for the use of our patents. We do not have to rely upon any illegal clause or ask the court in proving our own case to give us relief, even though we prove a violation of law.

Nobody says there is anything wrong about charging a

licensee a royalty, if it is not surrounded by other illegal clauses. And we are not insisting upon any illegality, nor is it necessary for us to prove or assert or rely upon any illegality or any illegal clause of any kind.

So I say that Bruce's Juices is directly in support of our position.

And now I approach the question, if your Honors should think you ought ever to get to it, what about misuse and purge?

[fol. 1502] Well, the petitioners are urging this court to enjoin U.S.G. from enforcing its patents, not forever, just for a period, and that period they say is prior to the date of the decree. But even then they ask you to enjoin only conditionally.

They say, "You enjoin U.S.G. for that period against enforcing its patents unless it can show that its misuse was purged before the final decree."

Well, now, what does that really mean? Have we not already shown in this record that as a matter of law patent misuse, whether it be a tie-in clause in a license or a price-fixing clause in a license can be ended instanter, as it was by us on June 8, 1941, by the sending of a notice withdrawing all price bulletins and from that moment on there were no fixed prices, nor have there ever been since?

I say the misuse can be in almost every case—can be and is—ended at once over night, instanter.

Of course, if somebody shows that in spite of the ending of that misuse adverse competitive effects linger on then maybe the disenfranchisement against enforcing the patent should continue until the court is convinced that the lingering adverse restrictive effects have been dissipated. And that is all purge means.

You end the misuse instanter, and then you approach the question, well, nevertheless, are there not some effects that still linger on from the fact that you fixed prices so long in [fol. 1503] an industry and has not everybody become accustomed to charging the same price? Do you not have to show that they have kind of got psychologically acclimated to free competition?

That is what I think the courts mean, show that the illegal consequences of the misuse are dissipated.

Well, who in this courtroom has yet asserted that there

are any adverse competitive effects or consequences lingering today, or that there were any lingering in 1948 to 1951? I have not heard anybody suggest that. I do not think anybody can suggest it.

I think it has been established by at least six circumstances in this record that not only were there no lingering effects, but if there were they certainly were dissipated by 1948, since price-fixing was abandoned seven years prior thereto. So that if the burden is on us in this court to show a purge, why then we have shown it.

What are the six circumstances that I say established purge as a matter of law before this court as of this present moment with respect to 1948-1951?

Well, they are, first, that everybody knows that we quit fixing prices July 8, 1941.

Well, I suppose my friends will say, "Ah, but you did not take the provision out of the agreement. You had the right to do it. Still in the contract."

Well, so what? We never exercised it.

[fol. 1504] And I was reminded after I got here in Washington of a decision of the Fifth Circuit Court in Whitecap against Owens-Illinois which is in 203 Fed. 2d, not cited in any brief in which that question was considered.

Judge Stone: May I have that citation again?

Mr. Bromley: Whitecap, the name of a company that makes bottle tops, against Owens-Illinois, the glass company.

Judge Worley: That is 203 Fed. 2d?

Mr. Bromley: 203 Fed. 2d, yes.

In that case I presented the misuse defense there, I am sorry to say. In that case Whitecap had a lease which provided for the lease of capping machines for bottles. The lease provided that it was on the condition that the lessee use the caps manufactured by the plaintiff company, an illegality clause under the Clayton Act. I introduced that lease and said it is illegal. They have misused their patents and they cannot sue Owens-Illinois for infringement, but the Court of Appeals pointed out that the existence of the clause was hardly enough, since the evidence showed that they had not enforced it for years.

I rely upon that as authority here.

The mere existence of the clause in the contract, while

sufficient for the Government relief, possibly, does not show that any adverse effects are to be inferred from it. Such adverse effects, if there are any, must be established by affirmative proof and established by the petitioners. And [fol. 1505] the appropriate place to establish is in the court where the question is raised, because there is no evidence before this court as to what the situation was in 1948 or 1951.

Now, second, I think the fact that there is a contention asserted in our sworn answers that these licenses, as a matter of fact, were repudiated by all parties in 1948, and that U.S.G. acquiesced in the repudiation, and the licenses were thereafter treated as non-existent, no action was ever taken to enforce them, I think that fact which is sworn to by us—and that is the only way this court can know about it,—shows again separately and independently that it cannot be said that there were any adverse competitive effects which lingered for a period of from seven to ten years after the discontinuance of price fixing.

And then, too, I think a third fact that is material and establishes purge is that in June 1948, pursuant to a March Supreme Court opinion in 1948, this court declared that these price-fixing licenses constituted a violation of the act. I do not think it is to be presumed that these defendants, in the face of that adjudication, continued their illegality, even though there was no injunction.

And in that connection I call again attention to the fact that the Government asked this court to restrain us by temporary injunction, and that this court said, "Why, there is no need for that."

This court knew we had stopped price fixing in 1941. This [fol. 1506] court said, "There is no need to enjoin these people even temporarily. If you, Mr. Government, find out they are doing anything wrong we are right here in Washington and you come right in and tell us and we will stop it."

And, fourthly, I think the fact that so often and so frequently, for so long a time, new licenses without any illegalities were offered to these people who are now trying to get out of paying for the use of our patents, indicates a purge.

We never had any intention after 1948 to insist upon any illegality. We were perfectly willing to give them licenses

without price fixing, without any possible illegal clauses, and continued so. And the record shows repeated offers.

I refer specifically to transcript at 8,257, where, on June 14, 1949, before this court, Mr. Connelly of my office in argument informed the court that he was offering licenses to all of these petitioners and they could take them for one patent or two patents or three patents, and they could have them in separate instruments or any way they wanted them. I think that is an important factor which establishes as a matter of law that there is nothing to this contention that we must now come in and show all over again that we were purged by 1948.

It is a minor point, but the decree of November 7, 1949, was actually in effect for more than 60 days while the Supreme Court stated and probably on our motion, that there was no hurry about getting a stay, and for some [fol. 1507] reason which I cannot now recollect we did not even apply for a stay for some 60 days, so that that decree was actually in effect for more than 60 days. And it will not be presumed as the Supreme Court said in the recent Timken case that the defendants violate orders, decrees of our courts and, as Mr. Justice Reed says, "Experience has shown that by and large they do not" and that is why there are so few applications for punishment for contempt. And I think it is of great significance here that the Government makes no contention that we are in contempt of any decree and does not ask you to bring us to book for any such contemptuous action.

And, again, and this illustrates the nature of the many questions that will come up in the District Court, it should not be forgotten that on May 29, 1950, well within this 1948-1951 period, the Supreme Court itself issued another injunction which was never stayed at any time thereafter, and that injunction, as Mr. Spray has said, enjoined us from enforcing in any manner whatsoever the price provisions of the license agreements. And it will not be presumed that any time thereafter we ever violated that order. And no contention is made that we ever did.

So what are these alleged illegal effects that are supposed to linger on? I suppose according to Ebsary and Newark they are still lingering on, because they do not even want to pay us for their use of our patents after 1951, after the

final decree. What are they? Where are they? Is it not a matter which is more appropriately considered dispute by dispute?

[fol. 1508] Even though it involves three District Courts instead of one, those judgments are all subject to review, and if there is any conflict in them under well accepted principles the Supreme Court can resolve the conflicting decisions.

And I say then that our inter-company fight should be left to the jurisdictions where they are brought. This court should not be bothered with them.

Two of these suits are pending in Iowa where there is only one judge, the two most important suits, and I guess he is not apt to be in conflict with himself.

The other two suits, one in New York, and one in New Jersey, were likewise brought where the plants are, so that it will be easier to assemble the evidence of infringement and just what processes were being used. So that I do not believe there is any reason based upon the avoidance of multiplicity of suits why this court should undertake the very considerable task, it seems to me, of trying to determine whether the court when it issued this decree should have made it broader than it was. I think this is a situation where multiplicity of suits is appropriate. And this certainly — not the only court which can afford full and complete protection to these plaintiffs against our claims if they are entitled to any protection against it. All these people want is to get a quick order which will relieve them from paying just compensation for the use of our patents to which we are clearly entitled.

[fol. 1509] I think their applications, therefore, may it please your Honors, should be denied.

Judge Stone: Have counsel for United States Gypsum finished their arguments?

Mr. Bromley: Yes, your Honor.

Judge Stone: The court will recess until 2:00 o'clock.

(Whereupon, at 12:55 o'clock the court recessed until 2:00 o'clock.)

[fol. 1510] AFTERNOON SESSION

2:00 p.m.

Judge Stone: Are the petitioners ready to present their hour of rebuttal? I see they are.

Mr. Rosenman: Might I inquire of your Honor whether we can use some of our unexpired time on argument in chief for rebuttal, or will we be held to an hour strictly?

Judge Stone: I should think you would be held to the hour, Judge Rosenman, because that was the arrangement in advance.

Mr. Rosenman: I see.

Judge Stone: But you may divide, of course, that as you see fit among counsel.

Mr. Rosenman: Yes. We have arranged that.

REBUTTAL ARGUMENT ON BEHALF OF NATIONAL GYPSUM COMPANY

By Mr. Rosenman.

Mr. Rosenman: Counsel for U.S.G., Your Honors, made a very significant statement when they referred to the change of position which the licensees have taken, and we confess that we have changed our position, and I think that that is perhaps the main distinguishing feature between this side of the table and U.S.G., that we have changed our position from what it was when the suit was brought, and the reason that we have is that the Supreme Court has spoken. It has spoken twice. It has overruled the positions which we took during the preceding proceedings, [fol. 1511] and has laid down definite statements of adjudication and definite statements of prohibition, and we have read those decrees; we have read those opinions, and we have decided that we have to abide by them.

To that extent, we have changed our position. We think that the United States Gypsum Company has not changed its position with respect to the arguments which it made way back in the trial of the case, which it made at the time of the remand, and which it made at the time the findings and the decree were entered into, and which it made all the way through the appeals. They are still, through the persons of Mr. Spray and Judge Bromley, riding the same horse

which they did then, that the only thing that the Supreme Court has found has been this one narrow adjudication that the price-fixing provisions for patented board were illegal, and that is all that the Supreme Court was interested in, and that is all that they found, and that so far as the other facts are concerned, they accepted the facts as laid down in the proffer made by U.S.G.

Now, the fact is, your Honors, and the opinions show it very clearly, that the United States Supreme Court did not accept these proffered facts. They went forward and made other findings. They did not do them in the formal form of findings, but as this court below understood what they were saying in their decision, in their opinion, it was to the effect that there were facts found of an abuse of patents, a misuse [fol. 1512] of patents, and above all, a complete regimentation of this industry and an organization of the industry in order not only to restrain prices but to restrain and prevent competition in methods of distribution, in methods of transportation, and in the customers that they would have, and they also found that there was a monopoly.

Now, a monopoly is not created merely by the fact that people fix prices. Monopoly is a result of many things, and those things were found by the Supreme Court of the United States.

Judge Bromley in his argument said that the one thing that he could not controvert when the case came back for remand was six pieces of paper which fixed the prices in the industry. Now, there were some other hundreds of papers which Judge Bromley, astute and capable as he is, could not deny, and those were bulletins which had been issued regularly by U.S.G., and those bulletins prescribed a great many things, and they are all discussed in the first opinion of the Supreme Court. They described methods of distribution, and I will take one of them up particularly. They prescribed whom you were going to sell to, and at what price, and they prescribed that the price of unpatented products would be fixed, because if they were cut, they might be construed as rebates on the price of the patented products.

So what the Supreme Court did in its decision was to take these bulletins as incontrovertible evidence, and they were all admitted on the so-called prima facie case, and

they said that, admitting the underlying facts of this case, [fol. 1513] namely, this incontrovertible evidence, and rejecting, as they did, all of the conclusory evidence, and stating that we did not intend to do anything contrary to the antitrust laws, and excluding all the protestations of good motives, that all we did here was to protect our legitimate patent monopoly, the Supreme Court said, excluding those conclusions and those statements of intention and those statements of good motives, but accepting what they called the underlying facts—and the underlying facts were the conceded facts, these agreements, these bulletins, the testimony of the defendants themselves on this so-called prima facie case, and we should bear in mind that although this technically was a prima facie case, many witnesses who were officers of the defendants had been called by the Government and had been examined and had been cross examined by counsel for the then defendants, so that although this was a prima facie case, the Supreme Court had enough before it to make findings of fact in the form of its decision, which it did, and those findings of underlying facts were never disturbed. They were never disturbed below, although Judge Bromley urged that they be disturbed and changed, and although the proffers of proof were entirely to the contrary, and they were never sustained all the way to the Supreme Court.

Now, why did the Supreme Court make these findings? Nobody urges, and I am sure Judge Bromley would not, that they made these findings without any evidence. Certainly those findings are binding on us. They made those [fol. 1514] findings because those findings showed a misuse of the patents which required a broadening of the decree, a broadening of the decree which had been brought up to it.

In the first opinion, it made those findings and reversed the findings below in order to reverse the judgment below.

In the second opinion, it made those findings in order to justify a broadened decree.

Now, it could not be, your Honors, that if the court simply found a plurality of licenses with price-fixing provisions, that they would have enlarged the decree to the extent that they did. I am going to ask your Honors' indulgence to take a look at the history of this decree by examining this

document with me, and that is why we think this document will be helpful to your Honors.

In the first place, I will call your Honors' attention to page 2. You will see in the second column there, this is the U.S. Gypsum's original proposed decree, which was submitted after the remand, and if you will look at Article II, it defines "Gypsum Board."

Now, when we come to the adjudication, the definition of "Gypsum Board" is very important. As it is defined here, it says it is just merely gypsum board.

The District Court decree, though, the next column, used the same definition of "Gypsum Board."

Now, when it got up to the Supreme Court, "Gypsum Board" is defined the same way—I am sorry your Honors. [fol. 1515] In the earlier decree, in the first column on page 3, "Gypsum Board" is defined only as gypsum board which is manufactured pursuant to patents. Do your Honors find that? The District Court decree of November 7th.

Judge Stone: Yes.

Mr. Rosenman: It says that "Gypsum Board" is only gypsum board which is made from gypsum embodying any of the inventions or improvements set forth and claimed in any of the patents.

Now, when it came up to the Supreme Court, they took out that restriction of patents, so that "Gypsum Board" is defined in the decree as any kind of board, the open-edge board as well as the closed-edge board, so that when we come to the adjudication, there is a vast difference between referring only to patented board and referring to unpatented board as well as patented board.

Then your Honors will notice in the first column on page 3, which is the District Court decree, there is no mention of "Gypsum Products," and that was because the District Court found no violation with respect to gypsum products other than gypsum board.

If your Honors go to the last column, which is the final decree, you will find that "Gypsum Products" are defined, and they are later included in the decree.

Now, the next definition is the definition of "Patents." Your Honors will see in the column under the District Court decree of November 7, 1949, that is the first column [fol. 1516] on page 3, that "Patents" are defined merely

as patents, but when you come to the final decree, they are defined not only as the patents which U.S.G. then owned, but they are defined as the patents which they will acquire within a period of five years from the date of the decree. That is in Definition 4.

Now, if we turn to page 4, if you look at the second column on page 4, we will see clearly expressed what U.S.G. was urging the only violation was. In Article III—this is the adjudication—U.S.G. was urging then upon the District Court, after the first reversal, and on remand, that the adjudication should read, "The defendant companies, by adhering to the minimum price provisions of the patent licenses in an entire industry with knowledge of the adherence," et cetera, "that they have restrained trade in violation of Section 1."

Now, that is what they claimed then, and they are still claiming it.

If you go to the District Court decree of November 7th, they went a little further. They did not quite go along with U.S.G., because they said that they have acted in concert in restraint of trade and commerce to fix, maintain and control the prices of gypsum board, and they added, "they have monopolized under sections 1 and 2." But the word "gypsum board" is subject to the definition to which I called your Honors' attention. On page 3, it is only "Patented Board."

Now, when the Government appealed from that finding, [fol. 1517] the Supreme Court adopted the Government's contention, and although, as Mr. Spray has said and Judge Bromley has said, there was no broadening of the language of the adjudication, and that is true, if your Honors will read on page 5, column 1 and column 3, they appear to be the same, but the important thing is that in column 3, when the final decree was signed, "Gypsum Board" no longer means only patented gypsum board. It means patented as well as unpatented gypsum board.

Now, the reason for that, your Honors, was that the Supreme Court had made certain findings, and they were not making findings just for the sake of making findings. They were making findings in order to determine what was wrong with the industry, and above all, what would have to be done in order to cure the ill effects of this misuse. So

they included these findings to include unpatented as well as patented board.

Judge Cole: You mean that "Gypsum Board" on page 4 in column 2 has a different meaning from "Gypsum Board" on page 5?

Mr. Rosenman: I say, column 2, page 4, has a different meaning, yes, sir, I do, because the definition—you have to go back to the definition of "Gypsum Board," and if you go back to the definition of "Gypsum Board" in that column which is on page 2— Judge Cole, did you ask me about the second column on page 4?

Judge Cole: Yes.

Mr. Rosenman: Well, the definition of that in the second [fol. 1518] column on page 2 is: "Gypsum Board" means only patented gypsum board. That is also true of the first column on page 3 and on page 5. But when we come to the final decree, the final decree defines "Gypsum Board" in a way which would include unpatented gypsum board, so that, although the actual language of the adjudication reads the same in these columns, the fact is that in the final decree, "Gypsum Board" means unpatented as well as patented gypsum board, whereas, in column 2 and in column 3, it means only patented gypsum board. That was because the Supreme Court found that there was an attempt to fix prices, a plan to fix prices on unpatented gypsum board as well as patented, and that production of unpatented gypsum board as well as patented gypsum board was restrained.

Now, if we continue in this decree to show how it was further expanded by the Supreme Court, if your Honors will turn to page 7, the first column on that page is the original District Court decree. Judge Stone asked the question about what happened to that subsection 1 there. You will see that this is the injunctive provision of the decree. I skipped Article IV because that is the same except as to what U. S. Gypsum was urging.

So with apologies, I ask your Honors to turn back to page 4, to look at Article IV. Your Honors will see that what U. S. Gypsum was urging before the District Court is set forth on page 4, the second column. This is U.S.G.'s original proposed decree submitted to the District Court. [fol. 1519] It says, We want you to find that, "the minimum price provisions of the Patent Licenses are hereby declared

to be illegal," and the licenses are canceled and terminated.

But what it is asking to be determined illegal is what it has always claimed and what was claimed before your Honors today, that the only thing that was illegal was the provisions of the patent licenses. And they asked that that be the entire adjudication, and they are still asking that in effect by urging that that is all that was found.

However, the District Court in its first decree rejected this proposal and found that the license agreements had been a-judged unlawful under the antitrust laws of the United States, and that they were illegal, null and void, and that continued right through until the final decree.

But what U.S.G. had urged originally was based on what it is still urging, that the only thing found illegal was the minimum pricing provisions.

Now, if your Honors will turn to Article V, this is the injunctive provision of the decree, and this is the provision which was prospective. The court had already acted with respect to the existing agreements and declared them null and void, and now it is looking to the future, as to injunctions and what should be done in the future. Judge Stone asked—and if you look at the first column on page 7, you will see subsection 1—about the further performance, or [fol. 1520] enforcement, of any of the provisions of the patent license. Now, if your Honors will look at the next column, the second column on page 7, which was what the Government submitted to the Supreme Court on appeal, that has disappeared there, and therefore, in the final decree it does not exist, either, so that where that disappeared was apparently when the Government submitted this to the Supreme Court, and the Government explained why that was left out, and that explanation has been submitted to your honors several times yesterday and today. He argued before the Supreme Court that it would be only painting the lily to include what is contained in column one on page 7 about enjoining the further performance or enforcement if, as a matter of fact, you declare the whole thing null and void, and because he was asking the Supreme Court to declare the whole thing null and void, he did not think it would be necessary, and that, as he said it, it would be painting the lily to include it in the final decree. So it was not in the final decree.

May I ask your Honors to look at the final decree, Article V? It does not restrict the defendants from fixing, maintaining or stabilizing prices alone, as I think Judge Bromley said it did. It goes much further than that. It says, We want to restrain you not only by patent licenses, but by "other acts or courses of action." They want restrained not only the prices, but also "the terms or conditions of sale."

Now, the terms or conditions of sale had been laid down by the hundreds of bulletins which had been issued, and [fol. 1521] those too were being restrained by the Supreme Court.

Then there are four specific things that are restrained. Now, each of those four specific things has a definite relation to some of the findings which the Supreme Court made, namely, that they had eliminated jobbers, that they had regulated transportation by a delivered price system, and that they had come in and policed our books, and all of those things were further enjoined, so that on the basis of what the Supreme Court found in its first and second decisions, it had completely broadened the decree, and I just do not understand how U.S.G. can come here and say that in spite of that, all that the Supreme Court found was that there was some small illegality in these licenses.

Now, Judge Bromley has stated, and we agree with him, that the function of this court is to protect the public interest, and that is what we thing we are asking. It is traditional in antitrust cases involving patents and royalties for the antitrust court to protect the public interest by insisting that because of the misuse doctrine and in the public interest, and in behalf of public policy, that the malfactor who is the owner of the patent be forbidden from recovering for the use of his patent, and both briefs contain many cases to that effect.

Now, we do not know what the facts are in the Kaiser case that Mr. Bromley spoke about. We do not know what the facts are in the Ebsary case and the other cases, except this, that we know that the only thing we are asking is that for [fol. 1522] the period of the misuse of these patents—and we urge that the misuse continued right until the final decree—that for that period, public policy demands and the public interest requires that the misuser of the patents

be forbidden from recovering for the use of the patents.

That has always come up whenever antitrust cases have considered the questions of misuse of the patents, because as a part of that consideration, there has always been the question of adjusting the royalty disputes between licensors and licensees; and there is nothing unusual in having the antitrust court act in that kind of umpire capacity, because in the Hartford Empire case and the National Lead case, a part of the decree consisted in adjusting the royalty disputes by saying that you cannot bring an action for infringements or for royalties for any use prior to the final antitrust decree.

Now, Judge Bromley insists that the cases hold that even if there is a misuse, that itself, even that, does not necessarily preclude recovery of royalties, and he cited the Connolly case, the Continental Wall Paper case, and Bruce's Juices in discussing that situation. We disagree with Judge Bromley's distinction between those cases.

The Connolly case, when your Honors come to read it, is a case where one member of a conspiracy proceeded to sell to an outsider, and the outsider resisted payment of the price on the ground that there was a conspiracy, an antitrust [fol. 1523] conspiracy, and the court held that you as an outsider—this is a transaction entirely apart from the conspiracy—you have no defense.

To make our case analogous to the Connolly case would require a situation where National Gypsum, for example, sold some gypsum to the XYZ corporation, and the XYZ corporation defends on the ground that you, National, are part of an illegal conspiracy. Well, the courts will hold, and they did hold in the Connolly case, that that defense is no good. And obviously it should not be, because the illegality is not a part of this sale on the basis of which the suit was brought.

Now, this is not the Connolly case; this is similar to the Continental Wall Paper case, in which the vendor and the vendee were each members of the same conspiracy, and the court in the Continental Wall Paper case distinguished the Connolly case very clearly on that ground and said that the defense of antitrust violation is a good one in the Continental Wall Paper case, and they sustained the demurrer.

Now, Bruce's Juices was a case of a Robinson-Patman violation, and there they held that where A sells to B at a price different from the one at which he sells to C, that B cannot raise the defense because there is nothing illegal in the contract between A and B. What makes it illegal is consideration of the contract between A and C, and the price of A and B might be different from the price between A and C. But the court said that there is nothing illegal in the [fol. 1524] contract between A and B and therefore we will enforce it, which is entirely different from this situation, and the court in Bruce's Juices said very clearly that the doctrine of the Robinson-Patman Act cannot apply to an antitrust violation, and that the rule in the antitrust violation cases is entirely different.

Now, I would like to take up in the few minutes left to me the facts upon which U.S.G. apparently relies in showing that there was a purge, and those are discussed in our brief, but there are some things that were said yesterday and today that I would like to call particular attention to.

It was stated and emphasized time and again that in 1941, the price fixing was stopped, and that the bulletins — no longer issued. Now, the brief showed a quote from the letter which stopped the price fixing, and that letter had in it expressly a reservation that they could reimpose the price provisions any time they wanted to.

Now, it is true, they never did, but none of us, none of the licensees, ever knew when or where or how they would, and we never knew, if we ever reduced the price, whether or not U.S.G. would ever clamp down on us and say, "You have violated the license."

That is particularly a formidable thing when we consider some of the provisions of the bulletins. I want to call your attention to one provision to show you how ephemeral it is to say that there was purge just by reason of the fact that [fol. 1525] they did not send any more bulletins out.

Some of those bulletins that they used to send restricted our right to deliver by trucks. Now, that was a part of the general scheme of a delivered price system, so that every customer would be paying the same price. That was a very complicated thing, and one of the means they had of enforcing it was to regulate how we could deliver by trucks.

There were some areas we could and some areas we could not. Now, suppose we had relied on the fact that they did not issue these bulletins any more, and had gone out and bought a fleet of trucks in order to deliver. The very next day U.S.G. could have said to us, "You have no right to use those trucks. So far as we are concerned, it would be a violation of the license agreement if you do," so that we could not rely upon the fact that they were no longer carrying on these procedures which were later declared to be illegal, in so far as the purge is concerned, the cases show very clearly that the mere fact that you have discontinued without committing yourself to discontinue any of the illegal provisions, does not constitute a purge.

Now, the cases cited in U.S.G.'s brief do not bear out their contention that the mere fact that they discontinued the use of these bulletins or discontinued fixing prices is a purge. There are cases which hold that if you never do enforce, if you never have enforced, any of the price-fixing provisions or any of the illegal provisions, if they have in fact become [fol. 1526] a dead letter, so that the parties can say that they have really been abandoned, that they have never been enforced and never have been put in use, that that might constitute the basis of a purge. But there is nothing like that in this case. They were used for 15 years or more, and there was never any indication to us as to whether or not they would be used again, and I repeat that the letter saying that they would not be used had in it a complete reservation of the right to reinstate the prices any time that they wanted to.

Now, the second thing on which they rely for purge, as Judge Bromley put it today, is these licenses, which were offered in conjunction with the first decree. Now, it is very important to take a look at those licenses, even though in fact they were stayed, because the whole decree was stayed. The contention is that those licenses were unobjectionable. Now, the fact is that those licenses not only were not unobjectionable, but the fact is that the Supreme Court in its decision and the final decree by its terms provided for entirely different kinds of licenses which contained provisions which were not in the 1949 suggested licenses.

Just to mention a few, and perhaps the most important, if your Honors will examine the decree about compulsory

licensing, it is provided that the licenses hereafter are to be available to anybody who asks for them at any time.

The license provisions of the 1949 decree provided that [fol. 1527] anybody would have the right within 90 days to ask for a license. That was extended. The 90 days was struck out, and that is terribly important with respect to purge, because it is one thing to say that anybody who comes in now within 90 days can get the license, but it is quite another thing to say that anybody 16 years from now can come in, any new enterprise, any new corporation, can come in 16 years from now anytime during the life of the patent and have a right to demand that patent.

That was the kind of license which was finally compulsorily issued, rather than the license of 1949, so that it is meaningless for U.S.G. to contend that in fact the licenses of 1949 constituted a purge.

The next fact which was relied upon was the fact that there was a rescission of the old license agreements. Mr. DeWitt will show that that claim of rescission cannot possibly be sustained, but even if it were, the Supreme Court here has held that rescission of the old license agreements was not enough, and the form of this decree shows what the Supreme Court thought was necessary in order really to constitute a purge, and mere rescission of the license agreements has been held by the Supreme Court not to constitute a sufficient purge.

The last fact relied on is this interim order of the Supreme Court enjoining U.S.G. from enforcing the price-fixing provisions of its license agreements. That cannot constitute a purge, because the Supreme Court held that that [fol. 1528] is not enough, that the price-fixing provisions, even if they are eliminated, do not constitute the misuse here, but that the misuse consisted of all these other things, of regimenting the industry; and withdrawing the price-fixing provisions would not be enough to constitute a purge, so that as a matter of law, we ask your Honors to hold that there could not have been a purge of the misuse of the patents found by the Supreme Court until the final decree, to use Judge Bromley's language, dissipated the evil effects and opened up the whole industry to free competition. And that was not done until May 15, 1951.

I have a number of other miscellaneous statements which

I would like to answer, but I want to leave time for my colleagues in rebuttal.

Our main point, your Honor, is that nothing has been shown here by U.S.G. to justify the position which they take, which they took six times, and which was overruled, that all that happened here was this slight, this narrow violation of law. The violation of law here was as broad as the decree, and it took a broad decree, a decree as broad as the one here, to dissipate the evil effects of this restraint and this monopoly, and until that happened, as a matter of law, there can be no purge.

Judge Stone: Pardon me, Judge Rosenman. When you spoke of the injunction just a moment ago, you meant that by the Supreme Court in 339 U.S.?

Mr. Rosenman: I am at a loss to remember which in-
[fol. 1529] junction I spoke of.

Judge Stone: You spoke of the injunction, as I understood you, which U.S.G. relied upon as a purge.

Mr. Rosenman: No. They rely upon the intermediate order of the Supreme Court after both parties had appealed from the November, 1949, decree. Your Honors will recall that U.S.G. appealed and the Government appealed. The U.S.G. appeal was dismissed, and probable jurisdiction was noted of the Government's appeal. Now, at that time the Supreme Court made an order. It is in 339 U.S. 959-960. That is right.

Judge Stone: Thank you.

Mr. Rosenman: I thought you said 333 U.S.

Judge Stone: No. I meant to say 339 U.S.

Mr. Rosenman: It is 339 U.S. That is right.

Rebuttal Argument on Behalf of Newark Plaster Company

By Mr. DeWitt.

Mr. DeWitt: If the Court please, the inescapable fact in connection with this litigation is that this court made a final decree on May 15, 1951, in Article IV of which it said, in the plainest language, that the license agreements enumerated in Article II of the decree were unlawful, illegal, null and void.

The simple and fundamental question, it seems to me,

which is before your Honors in this proceeding is whether or not U.S.G., in bringing the lawsuit against Newark, in [fol. 1530] New Jersey, and against these other defendants in other jurisdictions, is thwarting, evading and disr-garding this court's decree.

The simple way to find out whether the action in New Jersey, for example, is designed to thwart and circumvent this court's decree is to examine the complaint in that action. In count 1 of that action, U.S.G. seeks to recover for the breach of the license agreement which this court has specifically declared illegal, null and void. As I stated earlier, for U.S.G. to tell the District Court in New Jersey that an agreement is valid and enforceable when this court has said specifically that it is illegal, null and void, is in my opinion a deliberate attempt to destroy the integrity of the decree of this court, and should not be permitted.

Count 2 of that complaint alleges, as I understand it, that Newark and U.S.G. amended the license agreement and then agreed to carry out that license agreement as amended. We are dealing there, therefore, with an attempt on the part of U.S.G. to enforce this illegal and void agreement as partially amended.

That, it seems to me, is a clear effort on the part of U.S.G. to thwart this court's decree.

Now we come to Count 3, and it is to that count that I wish especially to address your Honors' attention at this time. I had supposed, because Count 3 was referred to as a quantum meruit count, that what was intended by U.S.G. was to claim that even if it could not recover on the con-[fol. 1531] tract itself, it could recover on quantum meruit. Your Honors will recall that I suggested in my earlier argument that where an effort is made to recover on a transaction which is the subject matter of a contract which has been declared illegal, null and void, that action will not be permitted. The agreement is void, and action on quantum meruit relating to the transaction covered by the agreement cannot be brought.

Judge Worley, your Honors will recall asked Mr. Spray this morning whether he agreed with that statement, and as I recall Mr. Spray's answer, he said that he had no quarrel with it. But what U.S.G. apparently seeks to do in Count 3 is to urge that they rescinded the license agree-

ment on which they are suing now under Count 1, that that agreement, therefore, completely passed out of the picture in 1948, and that therefore, they are suing on a completely new transaction utterly unrelated to the transaction covered by the license agreement.

Now, I contend that for this court to permit U.S.G. to advance that argument to a court in Newark is to circumvent, evade and flout the decree of this court, because throughout the litigation, far from contending that this agreement and the other agreements were rescinded, U.S.G., by word and conduct, has told this court repeatedly that these agreements were not rescinded, and they should not permitted, after telling this court repeatedly that they were not rescinded, to go into a court in Newark and say directly to the contrary.

[fol. 1532] Now, I say that they told the court expressly that these contracts were in effect. Your Honors will find, at pages 36 and 37 of the brief of National Gypsum Company, the colloquy that took place between Mr. Knuff and Mr. Connelly, who at that time spoke for U.S. Gypsum. Your Honors will note at the top of page 36 that the date on which this colloquy took place was June 13, 1949, which is a year after, in Count 3, this complaint of U.S.G. says these agreements had been rescinded. One year after they says the agreements were completely rescinded, this is the colloquy that took place:

The question was as to what agreements should be included in the list of agreements that were to be specified in the decree that was to be made; and Mr. Knuff, representing the Government, was anxious to know whether the list covered all of the agreements or whether there were some agreements that he had missed. You will notice that Mr. Connelly, toward the bottom of page 36, says: "Now, with reference to that list of patent license agreements, counsel for plaintiff"—that is the Government—"has stated here that it is entirely agreeable to him that that list of licensees"—it should be "licenses"—"be incorporated provided that it can be certified that these are the only agreements in effect between the parties."

You will notice at the top of page 37, after they had agreed that they would add to the language any amendments or supplements thereto, Mr. Connelly there stated,

[fol. 1533] "and any supplement or amendment to any of said patent license agreements. With that addition, the list is all-inclusive and the certification requested may properly be made."

They did not tell the court then that there was no need to include these agreements in the list that they had rescinded. On the contrary, they told the court that the agreements were then in effect.

Now, in 1949, when we were arguing before this court with respect of what should be included in the decree, much of the time was taken over the question as to whether there should be included this provisions that these agreements were illegal, null and void. At that time, U.S.G. argued that the only things that should be stricken from the agreements were the price-fixing provisions. Now, what agreements were they talking about in 1949, if, as they now allege in Count 3, these agreements had been rescinded in 1948? Either they had not been rescinded or they were trifling with this court in taking up the time of this court with respect to provisions relating to contracts which were no longer in effect but which, as they now claim, had been completely rescinded.

[fol. 1534] In the final decree of 1951, your Honors will find listed these very agreements. No suggestion was made to the court at that time that there was no need to include these agreements, that they had all been rescinded. They were treated by everybody as not having been rescinded. There was no suggestion of any rescission.

As recently as yesterday, Mr. Spray, at page 129 of the stenographic minutes, said:

> "On March 8, 1948, when the Supreme Court rendered its first decision reversing Judge Stephens and his colleagues in their order of dismissal, it came as quite a shock to the whole industry. We were not expecting that. And everybody stopped in their tracks as far as these license agreements were concerned.
>
> "The licensees stopped paying royalties. They stopped making reports. As National in its petition sets out, they stopped doing anything under the license, because the Supreme Court had held them unlawful.
>
> "U.S.G. likewise did nothing to try to enforce the license agreements. We just sort of were in a status

quo during that period there as far as taking any action."

There is no suggestion there that the license agreements had been rescinded.

In the very action in New Jersey, far from claiming that [fol. 1535] they were rescinded in the first count and in the second count, U.S.G. sues upon these agreements as being effective. Even today they sue upon them as valid existing agreements and not at all on the theory that they had been rescinded.

Now, I appreciate, of course, that it is possible to take inconsistent positions, and in different counts of a complaint to set up different theories. But it seems to me that where U.S.G. has repeatedly represented to this court by their counsel, by their conduct, that these agreements were not rescinded, but continued, that this court cannot permit U.S.G. to go into different parts of the country and tell these District Courts that these agreements were rescinded.

Now, the purpose is obvious. They are trying to get away from the difficulty of suing on quantum meruit. They realize that they cannot sue on quantum meruit unless they can in some way appear to clear the decks of these invalid agreements. They know that where the agreement is void, you cannot sue on quantum meruit. They recognize the doctrine that is set forth in Bruce's Juices and in Williston's and in Restatement of Law. But to avoid that, to circumvent that, they claim that there was a rescission, and thereby think that they can get the contracts out of the way and proceed as though the transaction had nothing to do with these contracts.

That, it seems to me, is a clear evasion of this court's decree and should not be permitted.

[fol. 1536] Now, we have had some discussion as to what took place before this court with reference to the purpose and the effect of the inclusion in the November, 1949, decree of the provision to the effect that these contracts were illegal, null and void, and it was suggested here, first, that Mr. Dallstream spoke for all of the defendants, petitioners here, and in speaking for them, that he said that nobody had as his purpose the evasion of the payment of royalties, that nobody sought to be excused from paying royalties.

Mr. Dallstream did not speak for Newark; he did not speak for Ebsary; and so far as I know—and I was there and participated—he spoke for Mr. Dallstream. There could have been no doubt whatever, and there was no doubt whatever, with respect to where Newark stood with respect to the purpose and the effect of that provision.

I not only made an oral argument, but I also found a memorandum at that time, and in that memorandum I urged the court to include this provision, to the effect that these agreements were illegal, null and void. As I told your Honors in my earlier argument, Newark had bought into a lawsuit, and we recognized that the Supreme Court had found that there was a conspiracy, that the whole thing was illegal, and it seemed to me that this court in its decree should use plain language so that we would all know where we were.

So I urged the court to include a provision in the clearest [fol. 1537] language stating that these license agreements were illegal, null and void.

Now, U.S.G. suggests that they did not understand at that time that they had any purpose of avoiding payment of royalties or that the effect of this would be that they would not pay any royalties, but they understood very well at the time, and they said in their memorandum on July 25, 1949, from which I have quoted on page 11 of the Newark brief—now, this is not what Newark says. This is what U.S.G. says about their understanding of the effect or the purpose of this provision:

> "Newark seeks a provision that each of the license agreements be adjudged unlawful under the antitrust laws and illegal, null and void, which not only goes beyond the scope of the determination by this court on the motion for summary judgment, but has for its purpose an attempt to be relieved from accounting as stated before in this memorandum."

The court read that memorandum. The court, therefore, knew what U.S.G. understood to be involved and what Newark understood to be involved, namely, that if the court included the provision to the effect that these contracts were illegal, null and void, these defendants could not be called

upon to pay royalties because U.S.G. could not enforce a void contract.

Judge Cole: Was there any suggestion that that be spelled out in the decree?

[fol. 1538] Mr. DeWitt: Except to the extent already indicated, that that was what U.S.G. understood.

Judge Cole: I understood that. You did not go beyond that, or anyone, and suggest that they spell it out in so many words in the decree?

Mr. DeWitt: We did not think so, your Honor, because we thought it was elementary, and I still think it is elementary, that you cannot recover on a contract which is illegal, null and void. If you search the lexicon of legal terms, you cannot find language which more completely condemns a document than the language which the court used here.

Now, to say in terms that a document that has been pronounced illegal, null and void will not support a lawsuit would have not occurred to me. Certainly the three learned judges who sat, and certainly counsel and everybody else thought as a matter of course that nobody would be allowed to enforce a document which the court had pronounced illegal, null and void. It was unthinkable. Everybody concluded that that would follow. That was what the discussion was about. That is why, of course, U.S.G. struggled to have the provision limited merely to the price-fixing provisions.

There was no need to spell out what we all thought was a perfectly obvious proposition. But the point I am making is that U.S.G. understood and declared to the court that it understood what this was about, that it would relieve, or [fol. 1539] at least Newark supposed it would relieve, as we did, from any obligation to account for royalties.

It seems to me in all of this proceeding, attention should be focused not upon the question of what benefits these defendants may derive or what detriment U.S.G. may suffer. The simple, elementary question to me is, Is this court going to compel respect for its own decrees? Is it going to make a decree holding agreements illegal, null and void, and sit back and allow a litigant to tell courts in different parts of the country that those very agreements are enforceable and lawful? Is this court going to sit by, after it has been told repeatedly that these contracts had not been rescinded

and allow the very people who told this court that they were not rescinded and who acted on the theory that they were still in effect—are they going to allow them to go to different courts in the country and tell those courts that what they told this court is not true, that those contracts really were rescinded? And for what end will they say that? They will say that in order to escape the consequences of a suit on quantum meruit based on an illegal transaction.

It is a device merely to escape the consequences of these illegal and void contracts. The transaction remains the same. They are suing for the same amount of money, and it is exactly as if they tried to sue on quantum meruit without rescission.

Judge Worley: Mr. DeWitt, in fairness to Mr. Spray, [fol. 1540] I am not sure that he took the position that you indicated he did in answer to my question.

Mr. Spray: I did not mean to.

Judge Worley: I did not think so.

Mr. DeWitt: I thought Mr. Spray said he had no quarrel with that position. I may have misunderstood him.

Judge Worley: Maybe I did.

Mr. DeWitt: I thought he said, "I have no quarrel with that position." I may have misunderstood him, but I thought that was what he said.

Mr. Knuff: May it please the court, I notice by the clock that the hour has expired, and I had about a minute or two minutes in which I wanted to say something. If the court feels I should be allowed to say it, all right; if not, I shall sit down.

Judge Stone: Yes. We will hear you for a few minutes, Mr. Knuff. The only purpose of the limitation is to divide opportunities fairly between the parties.

REBUTTAL ARGUMENT ON BEHALF OF THE UNITED STATES

By Mr. Knuff

Mr. Knuff: May it please the court, the Government's present contention, and the relief for which we pray, are simple and concise. The court's ruling on our petition will involve nothing more than a determination as to the force and impact of Article IV of the May 15, 1951, decree. [fol. 1541] Simply put, the Government's petition raises this very, very simple issue viz., Does an adjudication by

this court that certain specified license agreements are unlawful, illegal, null and void render them unforceable agreements?

If the answer to that question is in the affirmative, as the Government contends, then this court should grant the relief prayed for. If on the other hand this court answers it in the negative, then this court obviously will refuse the relief which we ask for.

In this latter event, however, it seems to us that this court will then have substantially modified its decree by refusing to secure to it the full force of the terms used therein.

Put concisely, it is apparent that the Government's position involves no complex issues and requires merely an order securing the integrity of the May 15, 1951, decree.

Thank you.

Judge Cole: If this court grants the petition of the Government enjoining U.S.G. in the various suits you have listed, would that carry with it the third count, for instance, which makes no reference to the contract whatsoever, this quantum meruit count?

I realize you are not taking any position as to that, but I am wondering if to grant your petition as it is presented here, would be all inclusive of the litigation as it stands, in Iowa, for instance.

[fol. 1542] Mr. Knuff: I have not given that matter any thought, Judge Cole. I should think that the decree could be so worded as to assure that if the court grants the Government's petition, it should apply as to the first and second counts of these various suits. I think they could work out a decree that would take care of a situation like that.

Mr. Rosenman: Your Honors, could I make sure, please, that one word is corrected in your copies of this? There is a confusing word on page 2, in the footnote.

Judge Stone: Surely.

Mr. Rosenman: In the footnote, the word "paragraphs" appears, and we have corrected it to "articles" on as many as we could catch, and I am not sure it has been corrected.

Judge Stone: Pardon me. That is where, Judge Rosenman?

Mr. Rosenman: On page 2, in the first column, down in

the footnote, the word "paragraphs" should read "articles."

Judge Stone: "Articles and paragraphs"?

Mr. Rosenman: No; just "articles" for the word "paragraphs."

Judge Worley: Would you like to clarify your position on that, Mr. Spray?

Mr. Spray: Yes, sir. What I thought I have said, your Honor, was that I had no quarrel with his illustration, but then I went ahead and stated the reasons why I thought this was a different situation.

Judge Worley: Thank you.

[fol. 1543] Mr. Spray: Thank you, your Honor.

Judge Stone: Are counsel ready now for the submission of this matter?

Mr. Bromley: Yes, your Honor.

Mr. Rosenman: Yes, your Honor.

Judge Stone: The matter will be submitted, and the court will recess until called.

Judge Cole has very properly suggested what I should have thought of myself, and that is the appreciation of the court for the very splendid presentation of the views of counsel for the several parties, and the help that those presentations, as well as your excellent briefs, will give us in trying to reach a proper conclusion in this matter. You have our appreciation.

Judge Worley: You presented them too well.

Judge Stone: Judge Worley suggests that you presented them too well.

(Whereupon, at 3:10 p.m., the matter was submitted and the court adjourned.)

[fol. 1544] (File endorsement omitted)

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

No. 8017 Civil

UNITED STATES OF AMERICA, Plaintiff,

v.

UNITED STATES GYPSUM COMPANY, et al., Defendants.

Petitions of the United States, National Gypsum Co., Certain-Teed Products Corporation, Ebsary Gypsum Co., Inc., and Newark Plaster Co. for Orders, Modifications or Directions for the Enforcement, Construction or Carrying Out of the Final Decree of May 15, 1951.

OPINION—JULY 6, 1954

Counsel who argued orally, who appeared at the hearing or who were on the briefs for the various parties are as follows.

For Petitioner, The United States of America: Mr. Edward Knuff (Special Assistant to the Attorney-General) argued orally; Mr. Vincent A. Gorman and Mr. Lawrence Gochberg (trial attorneys for The United States) appeared; Mr. Stanley N. Barnes (Assistant Attorney-General), Mr. Charles H. Weston and Mr. Edward Knuff (Special Assistants to the Attorney-General), Mr. William D. Kilgore and Mr. Vincent A. Gorman (trial attorneys for the United States) were on the briefs.

For Petitioner, National Gypsum Co.: Mr. Samuel I. Rosenman argued orally; Mr. Seymour Krieger, Mr. Elmer E. Finck and Mr. Seymour D. Lewis appeared; Mr. Samuel I. Rosenman, Mr. Elmer E. Finck, Mr. Seymour D. Lewis, Mr. Stanley M. Silverberg, Mr. Howard Weinstein, and Mr. Seymour Krieger were on the briefs, as also were Finck & Huber and Rosenman, Goldmark, Colin & Kaye, of Counsel.

For Petitioner, Certain-Teed Products Corporation: Mr. Norman A. Miller argued orally; Mr. Herbert W. Hirsh, Mr. C. Roger Nelson, Mr. Henry Clausen and Mr. Franklin M. Schultz appeared; Mr. Herbert W. Hirsh, Mr. Norman

A. Miller and Clausen, Hirsh & Miller were on the briefs, as were Garson Purcell and Purcell & Nelson, of Counsel.

For Petitioner, Newark Plaster Company: Mr. Benjamin P. DeWitt argued orally; joint briefs were filed for Newark Plaster Company and for Ebsary Gypsum Company, Inc. upon which were DeWitt, Pepper & Howell (attorneys for Newark) and Joseph S. Rippey (Attorney for Ebsary), as also were Benjamin P. DeWitt, Sidney Pepper and Joseph S. Rippey, of Counsel.

[fol. 1545] For Petitioner, Ebsary Gypsum Company, Inc.: Mr. Joseph S. Rippey argued orally.

For Respondent, United States Gypsum Company: Mr. Cranston Spray and Mr. Bruce Bromley argued orally; Mr. Robert C. Keck, Mr. Hugh Lynch, Jr. and Mr. John E. MacLeish appeared; Mr. Bruce Bromley, Mr. Cranston Spray, Mr. Robert C. Keck and Mr. Hugh Lynch, Jr., were on the briefs, as also were Cravath, Swaine & Moore and MacLeish, Spray, Price & Underwood, of Counsel.

Mr. Albert E. Hallett appeared for The Celotex Corporation.

Before the Honorable KIMBROUGH STONE, United States Circuit Judge and the Honorable WILLIAM P. COLE, Jr. and the Honorable EUGENE WORLEY, Judges of the United States Court of Customs and Patent Appeals, sitting as District Judges.

[fol. 1546] For Petitioner, Ebsary Gypsum Company, Inc.: Mr. Joseph S. Rippey argued orally.

For Respondent, United States Gypsum Company: Mr. Cranston Spray and Mr. Bruce Bromley argued orally; Mr. Robert C. Keck, Mr. Hugh Lynch, Jr. and Mr. John E. MacLeish appeared; Mr. Bruce Bromley, Mr. Cranston Spray, Mr. Robert C. Keck and Mr. Hugh Lynch, Jr. were on the briefs, as also were Cravath, Swaine & Moore and MacLeish, Spray, Price & Underwood, of Counsel.

Mr. Albert E. Hallett appeared for The Celotex Corporation.

Before the Honorable KIMBROUGH STONE, United States Circuit Judge and the Honorable EUGENE WORLEY and the Honorable WILLIAM P. COLE, Jr., Judges of the United States Court of Customs and Patent Appeals, sitting as District Judges.

[fol. 1547] STONE, Circuit Judge: The United States

brought an Anti-Trust action (Civil No. 8017) against United States Gypsum Company, et al., which were engaged in the mining of gypsum rocks and in the manufacture and sale of gypsum products. The complaint charged that a controlling unlawful combination was effectuated by means of substantially uniform patent license agreements between USG and the other manufacturing defendants as licensees. At the close of evidence for the United States, the statutory Court of three Judges sustained a motion to dismiss the complaint under Rule 41(b) of the Federal Rules of Civil Procedure upon the ground that on the facts and the law the Government had shown no right to relief (U. S. v. U. S. Gypsum Co., et al., 67 F.Supp. 397).

The Government appealed and the Supreme Court reversed and remanded "for further proceedings in conformity with this opinion." (333 U.S. 364, 402). This decision was on March 8, 1948 with rehearing denied on April 5, 1948 (333 U.S. 869).

After remand, the Government moved for a summary judgment, which was entered on November 7, 1949 (one Judge dissenting). As of that date, this Court entered a decree intended to cover the matters involved. Both sides appealed. The Government contended that the decree was not adequate to cure the ill effects of the illegal conduct of the defendants. The defendants contended that the summary judgment had denied their right to present direct evidence which would have established the lawfulness of their activities.

May 29, 1950, the Supreme Court dismissed the appeal of the defendants (339 U.S. 959) in a memorandum (339 [fol. 1548] U.S. 960) wherein it affirmed Article III of the November 7, 1949, decree and stating:

> "* * * Article III of the decree of the District Court of November 7, 1949, reading as follows: 'The defendant companies have acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board and have monopolized trade and commerce in the gypsum board industry in violation of sections 1 and 2 of the Sherman Antitrust Act,' is affirmed. The corporate de-

fendants and Samuel M. Gloyd, doing business as Texas Cement Plaster Company, are enjoined, pending further order of this Court, from (1) enforcing in any manner whatsoever the provisions of their current license agreements fixing, maintaining, or stabilizing prices of gypsum board or the terms and conditions of sale thereof, and (2) from entering into or performing any agreement or understanding in restraint of trade and commerce in gypsum board among the several states in the eastern territory of the United States by license agreements to fix, maintain, or stabilize prices of gypsum board or by license or other concerted action arranging the terms and conditions of sale thereof."

On November 27, 1950, the Supreme Court decided (340 U.S. 76) that the decree of November 7, 1949 was inadequate. The Court pointed out wherein it found such inadequacies and closed its opinion as follows: "With these general suggestions, the details and form of the injunction can be more satisfactorily determined by the District Court. Its procedure for the settlement of a decree is more flexible than ours." On the same day, the Supreme Court extended its injunction order of May 29, 1950 (339 U.S. 960) to be "continued in effect until the entry of a final decree in the District Court."[1]

On May 15, 1951, this Court modified its earlier decree in accordance with this opinion of the Supreme Court. There was no appeal therefrom. This is the present Final Decree.

[fol. 1549] In january, February or March, 1953, USG filed separate similar actions against four of the other corporate defendants in the Anti-Trust action. These suits were: against the National Gypsum Company, in the Northern District of Iowa; against Certain-Teed Products Corporation, in the same District; against Newark Plaster Company, in the District of New Jersey; and against the Ebsary Gypsum Company, in the Southern District of New York. Each of these suits was based on alternative

---

[1] This extension order appears in the mandate issued to this Court on the remand from the opinion in 340 U.S.

claims for royalties or for the reasonable value of the use of certain of its patents or for damages because of infringement. The time period covered by each of these four suits was, roughly, from the first opinion by the Supreme Court (March 8, 1948), to the date of the Final Decree (May 15, 1951), and, as to Newark and Ebsary, up to the filing of the complaint against each of them.

The Petitioner in each of the four suits here has filed, in the Anti-Trust case, its separate petition to enjoin the USG suit against it and for associated relief. Very broadly stated, these petitions are based on claimed protection of the Final Decree in the Anti-Trust case, on misuse of patents, and on prevention of a multiplicity of actions. Stay orders have been entered in the two Iowa district cases to await action here. Also, the United States has filed a petition to enjoin USG from asserting any claim or suit "in whole or in part on any of the license agreements adjudged illegal, null and void by the final decree of this Court entered on May 15, 1951, or on any provision thereof." As to any claims based on such license agreements, the United States alleges that such "are barred by, and constitute an attempt to defeat, said decree." As to any "alternative [fol. 1550] claims" set forth in such four suits, the United States "takes no position" as to whether or not they are barred by the Final Decree.

Both by briefs and oral arguments, the issues have been excellently presented by very able counsel for all of the parties.

A plan as a guide to our sequence in considering the issues before us is under four general headings as follows:

I—Jurisdiction
II—Scope of Article IV of the Decree
III—Modification of the Decree
IV—Misuse and Purge

This opinion will follow that arrangement.

I—Jurisdiction

Jurisdiction of a Court to act upon matters presented to it is purely a matter of power to act. Having such power, whether a Court should exercise it may or may not become a matter of discretion depending upon whether, under all

the circumstances of the situation before the Court, the Court has a duty or has a choice.

Petitioners claim jurisdiction here on four grounds: (a) to compel obedience to the Decree, (b) to implement the Decree in order to effectuate its "basic" purposes, (c) to exercise a "paramount" jurisdiction under express reservations in Article X thereof, and (d), under broad powers of a court of equity, as the most appropriate forum to prevent possible misconstruction of the Decree, in a multiplicity of actions, by Courts unfamiliar with this Anti-Trust case litigation.

Besides countering each of these grounds, USG contends (a) that only the Government (being the sole original complainant) can move to construe or enforce the Decree, and (b) that the Government can participate in the four suits [fol. 1551] as a permitted intervener or as an *amicus curii*.

Such being the contentions as to this issue, it seems logical to consider first the contentions of USG. The main reliance of USG is Buckeye Coal and Railway Co. v. Hocking Valley Co., 269 U.S. 42. Petitioners distinguish this case on the grounds that the Buckeye was not a party to that Anti-Trust suit (while Petitioners are defendants in such action here); and that Article X of this decree expressly reserves jurisdiction to enable "any of the parties to this decree * * * to apply to this Court, at any time for such orders" etc. They cite Missouri-Kansas Pipe Line Co. v. U. S., 312 U.S. 502; Local Loan Co. v. Hunt, 292 U.S. 234 and Terminal Railroad Ass'n. v. U. S., 266 U.S. 17 to support their contention that parties to an anti-trust case may act to protect their interest based on the Anti-Trust Decree.

Speaking generally and without regard to any special considerations applicable to anti-trust suits, it is correct to say that a court of equity has power to enforce its decrees and that such power includes implementation of the basic purposes thereof in so far as such appears from the language or from the clear intendment thereof. These rules apply to civil anti-trust suits brought by the Government with the important qualification or limitation as to the parties who may take advantage of them. This difference arises from the purposes of such suits. The purposes of such an action are to destroy an economic situation which is

resulting from a conspiracy or monopoly in restraint of interstate commerce to the harm of the public.

To represent and protect this public interest is made the duty of the Attorney-General (15 U.S.C.A. § 4 and related sections of the Act.)[2] USG relies upon the Buckeye [fol. 1552] Coal & Railway Co. et al. v. Hocking Valley Railway Company et al., 269 U.S. 42, which dismissed certain petitions in intervention seeking relief in an anti-trust suit brought by the Government and in which a decree for dissolution had been entered some seven years before the intervening petitions were filed, as establishing the doctrine that only the Attorney-General can seek to enforce, construe or modify a decree requiring dissolution under the Act. There are expressions in the Buckeye case which tend to support such a view.[3] However, this statement is immediately followed by another which clearly implies that the situation might have been different had interveners been parties to the Anti-Trust suit.[4]

Parties to an original anti-trust suit have a status therein which often does not apply to outsiders. This arises from the practical effects of the decree upon the legal rights of the parties. Such a decree is based upon a determination that the Act has been violated by an existing

---

[2] This duty is different and broader than the right given individuals to recover separate damages under 15 U.S.C.A. § 15. Compare United States v. The Borden Company et al., 348 U.S. —, May 17, 1954.

[3] At page 49 of that opinion the Court stated:

> "* * * The United States, which must alone speak for the public interest, does not appear with them [the interveners] on this appeal. They have therefore no *locus standi*. *United States* v. *Northern Securities Co.*, 128 Fed. 868" [should be 808].

[4] At page 49 appears:

> "Underneath all these reasons for dismissing the appeal, is the fundamental objection that these coal companies presented no case upon their petition justifying their intervention. They were not parties to the original suit."

[fol. 1553] economic situation. Necessarily, the relief is such alteration of that situation as will do away with all unlawful features and potentialities. Unavoidably, such legal surgical operations involve and change the interrelationship of the defendants, whose only reason for being made parties defendant was that they participated in the violation of the Act. Such decrees are intensely practical. Often, in this readjusting process, a decree provides not only for duties but also for rights *inter se* the parties. Where such rights are given, they carry to the recipient party the right to urge compliance, within the limits of the decree.

This is the rule applied in Terminal Railroad Association of St. Louis et al. v. United States et al., 266 U.S. 17. This was an action for contempt instituted by the "west side lines" against the "east side lines" based upon the contention that the latter had violated an anti-trust case decree to the damage of rights alleged accorded the "west side lines" under that decree. In that opinion (p. 27) the Court stated:

> "In these proceedings, the United States did not join in the complaint or participate in the hearing in the District Court, but has since appeared and is aligned with the appellees. The Proceedings were instituted by the west side lines, not to vindicate the authority of the court, but to enforce rights claimed by them under the original decree. The controversy is between them and the east side lines as to whether the former or the latter shall bear transfer charges on west bound through freight."

Also, the Court (p. 29) stated:

> "* * * The question whether the east side lines are bound to pay transfer charges on west bound through freight depends upon the proper construction and application of the original decree."

There is another case which is important. In an anti-trust suit by the United States v. Columbia Gas and [fol. 1554] Electric Co. et al., a consent decree was entered. The closing paragraph of the decree provided that Pan-

handle Eastern Pipe Line Co. (not a party in the action) "upon proper application, may become a party hereto for the limited purpose of enforcing the rights conferred by Section IV hereof." Thereafter, Panhandle sought to do this by applying for leave to intervene, which was denied by the District Court. The appeal of Panhandle is Missouri-Kansas Pipe Line Co. v. United States et al., 312 U.S. 503.

In discussing the case, the Supreme Court stated (p. 504) that the "issues here revolve around the scope of those provisions of the decree." Among the arguments pressed was a challenge to the jurisdiction over the appeal or, "in the alternative, insisting on the propriety of the action of the district court" (p. 505). It was argued that "the Attorney-General is the guardian of the public interest in enforcing the anti-trust laws * * * [and that] injection of new issues ought not to be allowed to delay disposition of the main litigation * * *" (p. 505). The Court stated (p. 506):

> "All of these arguments misconceive the basis of the right now asserted. Its foundation is the consent decree. We are not here dealing with a conventional form of intervention, whereby an appeal is made to the court's good sense to allow persons having a common interest with the formal parties to enforce the common interest with their individual emphasis. Plainly enough, the circumstances under which interested outsiders should be allowed to become participants in a litigation is, barring very special circumstances, a matter for the *nisi prius* court. But where the enforcement of a public law also demands distinct safeguarding of private interests by giving them a formal status in the decree, the power to enforce rights thus sanctioned is not left to the public authorities nor put in the keeping of the district court's discretion.
>
> "That is the present case. Panhandle's right to economic independence was at the heart of the controversy. An important aspect of that independence was the [fol. 1555] extension of its operations to permit sales in Detroit. The assurance of this extension was deemed so vital that it was safeguarded by explicit provisions in the decree."

Further, the Court stated (p. 508):

> "We are not concerned with the substantiality of this claim. The sole question before us is whether there was standing to make the claim before the district court. We hold there was such standing. To enforce the rights conferred by Section IV was the purpose of the motion." "Nor can the enforcement of this protection be deemed remotely in conflict with the public duties of the Attorney-General, nor to bring in digressive issues, nor to impeach the existing decree. It is a vindication of the decree."

In the concluding paragraph, the Court states (p. 509):

> "In a memorandum filed by the Attorney General we are advised that on January 18, 1941, the district court filed an opinion approving the plan for modifying the original decree subject to some suggestions by the Government. This, we are told 'is believed to satisfy the public interest,' and so the Government desires to sustain the action of the court below without further litigation. We recognize the duty of expeditious enforcement of the antitrust laws. But expedition cannot be had at the sacrifice of rights which the original decree itself established. We assume that the district court will adjust the right which belongs to Panhandle with full regard to that public interest which underlay the original suit."

We think that these three cases announce the following rules of law applicable to the situation here: the Attorney-General is the representative of the "public interest" in anti-trust cases brought by the Government; but that where a dissolution decree by specific statement or by fair implication therein accords rights to parties thereto, they have a standing, in the main suit, to enforce such rights in a manner consonant with the underlying purposes of the decree.[5]

---

[5] We have confined our discussion to parties to the original Anti-Trust suits. However, there are other cases where persons not parties but directly affected by the decree in

[fol. 1556] In this Final Decree, there was (Article X) an expressly reserved jurisdiction "for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith."

Such reservation is sufficient to sustain jurisdiction.

For the reasons that the Petitioners here are parties to the original Anti-Trust suit presenting claims to rights under the Final Decree; and that Article X of that Decree expressly reserves jurisdiction, we hold that jurisdiction to entertain these petitions exists. In so holding, we apply the language in the Missouri-Kansas Pipe Line Co. case, *supra* at p. 508 that "We are not concerned with the substantiality of this claim. The sole question before us is whether there was standing to make the claim before the district court. We hold there was such standing." Such "substantiality" depends upon what we will call "The Merits" of these controversies—to be considered later in this opinion.

Next, passing to the four grounds alleged by Petitioners to sustain jurisdiction—all of which are challenged by USG.

The inherent power of a court of equity to compel obedience to its decrees is conceded by USG. It contends [fol. 1557] that its suits do not violate the Decree, hence this doctrine is inapplicable here. Where it is seriously contended, as here, that these suits do violate the Decree, obviously, this Court has power—jurisdiction—to determine whether such violation exists; and, if it does exist, how it may be cured.

As to the existence of power—jurisdiction—we think it

---

such cases have been allowed, in connection with such suits, to intervene or to defend to test their rights. Examples are Hughes v. United States, 342 U.S. 353; United States v. Paramount Pictures et al., 334 U.S. 131, 176-178; United States v. Swift & Co. et al., 286 U.S. 106; United States v. California Cooperative Canneries, 279 U.S. 553; Continental Ins. Co. et al. v. United States et al., 259 U.S. 156.

is not controlling that Petitioners might urge the Decree as a defense in the USG suits. That question is not one of the existence of jurisdiction in this Court but rather one of whether this Court, in its discretion, should exercise such jurisdiction instead of leaving such issues to be determined in the USG suits.

As to the ground for jurisdiction based upon "implementation" of the Decree to effectuate its basic purposes, we think the reasoning in Local Loan case (*supra*) at p. 239 is merely one of the methods of seeking relief in the original action. There it was by an ancillary bill and here by petitions. Here, as there, the jurisdiction "to secure or preserve the fruits and advantages of a judgment or decree rendered therein" is a basis urged here for our jurisdiction. Here, Petitioners urge that Article IV of the Decree established a "status" which is endangered by the USG suits. We think this issue is within the jurisdiction of this Court. As to the nature and limits of implementation, see Hughes v. U. S., 342 U.S. 353, 356-357.

As to modification of the Decree as a Jurisdictional matter, Article X expressly reserves that power. Whether or to what extent the Decree should be modified are matters within the proper exercise of that power. If this power should be exercised, we think we have power (as admonished by the Supreme Court in this case, 340 U.S. at pp. 88-89) [fol. 1558] to make any modifications which will, "so far as practicable, cure the ill effects of the illegal conduct, * * *." At the same time, we cannot enlarge the Decree beyond the limits necessary to perfect its effectuation. (U. S. v. Swift & Co., 286 U.S. 106, 114). Also, U. S. v. International Harvester Co., 274 U.S. 693, 702, where the Court stated that a supplemental complaint by the Government to broaden the original decree must be denied because "This is entirely inconsistent with *the purpose of the consent decree,* both as appears from its terms and as it was apparently construed by the District Court itself" (italics added). Also, see Hughes v. U. S., 342 U.S. 353, 356-357.

As to jurisdiction based on possible misconstruction of the Decree in a multiplicity of Courts. It seems to us that this ground is really that of a multiplicity of actions. The matter of possible misconstruction of the Decree is rather a *reason* for taking jurisdiction where there is a claimed

multiplicity of actions each involving the meaning and application of the Decree. We think there is a proper and clear multiplicity of actions, to wit, the four present suits by USG and the claims against Celotex and Kaiser. Multiplicity of actions prevention is a long established basis of equity jurisdiction. We think such jurisdiction is present here. Our conception of this character of jurisdiction is that its exercise is discretionary instead of compulsory. The extent of such exercise should depend upon our solution of the issues herein as to the merits.

In this part of our opinion we are not determining anything as to the merits but only broadly that Petitioners have the right to proceed.

Our next task is to determine the merits of the several [fol. 1559] issues which Petitioners claim entitle them to relief. In doing this, we do not leave behind us all questions of jurisdiction. The broad issues are: (a) the Scope of Article IV of the Decree, (b) the Modification of the Decree, and (c) Misuse of Patents, with the related matter of Purge. As to each of these issues there enters a matter of jurisdiction—not as to *general* jurisdiction to entertain Petitioners' actions here but as to the legal limits within which we may act in considering and determining the particular issue. An illustration of this kind of jurisdiction is the general doctrine that a decree cannot be enlarged beyond the effectuation of the purposes thereof.

II—Scope of Article IV

Petitioners contend: (1) that Article IV of the Decree "in terms and by fair intendment" bars these suits by USG; (2) that, even if Article IV "in its present form" is not a bar, yet it should be so *implemented* as "necessary to achieve the basic purpose" of the Decree; and (3) that if such remedy is deemed not within the Decree, "as it presently stands," the Decree should be so modified, because the need for such relief has only recently become necessary in order to achieve its basic purpose. The last of these three contentions will be hereinafter treated under the next heading of this opinion—that of "III—Modification."

The scope of Article IV should be determined in the light of the issues in the Anti-Trust case, of the entire Final Decree, of the proceedings in this Court in connection with

the two decrees (November 7, 1949 and May 15, 1951), and the here pertinent statements in the opinions of the Supreme Court in this litigation. To discuss each of these matters adequately is an unnecessarily large undertaking for the purposes of this opinion. We shall attempt only a sufficient outline of the essential high points.

[fol. 1560] *The Issues.* The Anti-Trust suit was to enjoin violations of Sections 1, 2 and 3 of the Act. These violations were charged as being carried out by means of patent license agreements granted by USG to the other defendants (manufacturers of gypsum board). The opinion of Chief Judge Stephens very finely and completely narrates the facts and issues on the trial which resulted in the first appeal (333 U. S. 364). We refer to his opinion (*United States* v. *United States Gypsum Co.*, 67 F. Supp. 397) for a more detailed statement of the issues.

The Final Decree. The pattern of the Final Decree of ten Articles is as follows. Article I is the jurisdictional declaration; Article II is the definition of terms used in the Decree, these include "Patents"[6] and "Patent Li- in concert to violate Sections 1 and 2 of the Act; Article IV is that "Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void";

---

[6] "Patents" is defined as including all patents and applications therefor (covering gypsum board, its processes and methods of manufacture or use thereof) issued to, applied for or acquired "within a period of five (5) years from the date of this decree", as well as patents issued upon any of said applications, continuations, etc. of any such patents or applications.

censes";[7] Article III declares the defendants have acted

[7] "Patent Licenses" mean the patent license agreements in effect between USG and each of the other defendants "at the time the complaint herein was filed and described in said complaint as follows: [here follows listing of eighteen such agreements] and any supplement or amendment" thereto.

Article V contains the injunction provisions;[8] Article VI covers non-discriminatory compulsory license agreements from USG to applicants therefor, subject to approval of the District Court; Articles VII and IX are not material to us here; Article VIII provides for supervision by the Department of Justice to secure compliance with the Decree; Article X is the reservation of jurisdiction for the purposes of construction of, carrying out of, or enforcement of the Decree.

A condensation of the method or plan of the Decree to remedy the unlawful situation may be stated as follows: by annulling the existing named license agreements; by injunction against acts which would tend to defeat the Decree; by use of new compulsory court supervised license agreements; by Department of Justice supervisory inspections; and by retention of broad jurisdiction to protect and effectuate the purposes of the Decree.

---

[8] These provisions are "from entering into or performing any agreement or understanding among the defendant companies or other manufacturers of gypsum products to [fol. 1561] fix, maintain or stabilize, by patent license agreements or other acts or course of action, the prices, or the terms or conditions of sale, of gypsum products sold or offered for sale to other persons, in or affecting interstate commerce; and from engaging in, pursuant to such an agreement or understanding, any of the following acts or practices:

"(1) agreeing upon any basis for the selection or classification of purchasers of gypsum products;

"(2) refraining from selling gypsum products to any purchaser or any class of purchasers;

"(3) agreeing upon any plan of selling or quoting gypsum products at prices calculated or determined pursuant to a delivered price plan which results in identical prices or price quotations at given points of sales or quotations by defendants using such plan;

"(4) policing, investigating, checking or inquiring into the prices, quantities, terms or conditions of any offer to sell or sale of gypsum products."

Proceedings in this Court. After rehearing was denied (April 5, 1948, 333 U. S. 869), this Court held a conference of counsel which resulted ultimately in a motion by the Government for summary judgment, it being claimed [fol. 1562] that there was no genuine fact issue remaining to be determined. Defendants filed offer of proof as to fact matters they deemed yet in issue. These two occurrences were in June 1948. Beginning in June 1948 and extending to June 14, 1949, numerous briefs and memoranda were filed by the various parties in connection with the motion for summary judgment, the offer of proofs, suggested findings of fact, and form and contents of decree to be entered. June 14, 1949 this Court held an extended hearing upon all of these matters. At the hearing, a majority of this Court made clear their intention to sustain the motion for summary judgment; and counsel for all parties were given time to file suggestions and memoranda as to form of decree and other pertinent matters. Such suggestions and memoranda were filed up to August 12, 1949. Without further hearing, this Court entered its decree of November 7, 1949. It is this decree from which the Government and the defendants appealed (Defendants' appeal 339 U. S. 959 and 960, Government appeal 340 U. S. 76).

We have gone through the transcript of the hearings in this Court (June 14, 1949), the written or printed suggestions and memoranda of the parties filed before, in connection with and after that hearing. Much of these matters and the hearing had to do (*inter alia*) with the various suggestions as to the form of decree to be entered, including the scope and purposes of what later became, in substance, Articles III, IV and VI of that decree. Practically all of the matters were concerned with prevention of violation in the future, that is, after the effective date of the decree to be entered. However, USG was much concerned with avoiding any provision in the decree declaring the licenses illegal, null and void [fol. 1563] in their entirety. It was in this connection that it voiced its apprehensions as to the period involved here. Since our concern here is with what took place after the first opinion of the Supreme Court and before

entry of the Final Decree (May 15, 1951), our search was primarily aimed at anything in this presentation in connection with the November 7, 1949 decree which might throw particular light upon the period of our concern. Some little discussion occurred, at the hearing, over the terms and conditions of compulsory licenses.

At this point, it is convenient for us to narrow our consideration of the causes of action alleged in the petitions filed by USG in the various other District Courts. These petitions contain five Counts each in the actions against National and against Certain-Teed, and six Counts in those against Ebsary and Newark.* The first two Counts of all four petitions are directly based on the license agreements set forth in Article II of the decree of November 7, 1949. Article IV of that decree nullified completely the license agreements listed in Article II. This nullification did not create a status. It simply declared a status which had existed since the granting of the license patents. This Article was made effective *pendente lite* by the Supreme Court in connection with disposition of the appeal of the defendants in the Anti-Trust case (May 29, 1950, 339 U. S. 960) by enjoining any continued performance thereunder. Article IV passed into the Final Decree unchanged. The effect of Article IV was to nullify completely these license agreements. In this situation, we [fol. 1564] determine that these two Counts in all of these suits should be enjoined from further prosecution because they clearly violate the express provisions of Article IV. We are not impressed by the contention of USG that these two Counts are necessary or useful to meet possible factual situations which might arise in the trials of these suits. Those Counts state definitely ground for claimed relief and must be so regarded. This determination allows us hereinafter to limit and concentrate attention upon the other Counts of each petition.

---

* In the suit against Ebsary and in that against Newark the additional Count (Count 6) is for alleged infringement of a patent not covered in any of the license agreements listed in Article II of the Decree. We will later herein determine as to these Counts 6.

We turn now to matters in connection with the formation of the 1949 decree which throw light upon the period now involved. In this connection, it should be in mind that the four Petitioners here had ceased paying royalties (under the license agreements) shortly after the first opinion of the Supreme Court (333 U. S. 364, March 8, 1948).

During the discussion at the hearing on June 14, 1949, Mr. Miller, counsel for Certain-Teed stated:

> "• • • Mr. Dallstream, who will follow me, will present to Your Honors the exact changes we desire to make in both decrees [presented by the Government and by USG] which would give us the decree we would be satisfied with and which we hope that Your Honors will adopt."

Thereafter, Mr. Dallstream stated:

> "At IV, which United States Gypsum has left out altogether, and has gone back over to page 7 and shown it lined up with VII of the Government, we would like to suggest that in lieu of either, the Article VII of the Government and Article IV of U. S. Gypsum, that a new Article IV reading in exactly the language of the Masonite case be entered, which would read as follows:
>
> > " 'That each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and is illegal, null, and void.'
>
> "Chief Judge Stephens: You suggest that in place of Article VI of the Government?
> [fol.1565] "Mr. Dallstream: Of the Government and article IV of United States Gypsum.
>
> "Chief Judge Stephens: Yes.
> "Mr. Dallstream: I agree with Mr. Finck that we cannot dodge the fact that whatever interpretation should be put on the Supreme Court's decision, the majority of this court have decided that the mere plurality of licenses, accompanied by the other fea-

tures that existed in this case, made those agreements illegal and that, being illegal, they are unenforceable and are null and void.

"Now, we are faced with the dilemma: What are we going to do about it: We have got to have some new ones if we are going to be fair to the industry, to these licensees, the public, and to all concerned; and so, some provision must be made, and we think V and VI take care of that, and if we declare them null and void for these reasons, which have been recited in the previous paragraph of this decree, that we have taken care of the situation.

"In order that United States Gypsum will have no misunderstanding of my position, I want them to know that my suggestion is in no sense based on any hope or desire on my part to get out of any license fees during any interim period, and if we can agree upon an appropriate license agreement, as far as my client is concerned, we are willing to let the royalty rate, whatever it is, agreed upon apply back to the time when we ceased paying royalties. I just want to make it clear to all that we are not attempting by this declaration of illegality of them to find some way of avoiding the license fees which during this none of us have paid." (Transcript, pp. 8220-8221.)

In a Reply Memorandum filed by USG (July 23, 1949), are the following statements:

"The defendant licensees can have no purpose in making the suggestion that each patent license be adjudged illegal except to obtain some advantage with respect to the use of the patents. They apparently believe it will relieve them from accounting for anything done either before or after the Supreme Court's decision." (P. 6.)

"They have no right of any kind to Gypsum's patents in the future any more than if their licenses had expired without this litigation. With the cancellation of their present licenses they should only be placed in *statu quo* to the extent that any licensee desires to

continue the use of any of Gypsum's patents under which it is presently licensed." (P. 8.)

"In the first place, Newark seeks a provision that each of the license agreements be adjudged unlawful under the anti-trust laws and illegal, null and void, [fol. 1566] which not only goes beyond the scope of the determination by this court upon the motion for summary judgment but has for its purpose an attempt to be relieved from accounting, as stated before in this memorandum." (P. 9.)

"National like Newark, is one of those companies which seeks to have the entire license contract declared illegal, apparently believing it will relieve them from accounting with respect to anything done before or after the decision of the Supreme Court." (P. 15.)

It is clear from the foregoing quotations that the situation as to our period was brought up at the hearing and in the USG Memorandum in connection with the discussion as to the scope and possible effect of what later became Article IV, which struck down the licenses *in toto*. USG thus expressed its apprehension that the licensees had in mind some purpose of avoiding an accounting for use of its patents during our period. In so far as Certain-Teed and Celotex were concerned, any ground for this apprehension was expressly disavowed by Mr. Dallstream. National, Newark and Ebsary made no mention of the matter. No party sought to have it, specifically and separately, included in the decree of November 7, 1949.

It is important to emphasize the matter, in connection with which, these apprehensions of USG were expressed. The main contention between USG (on one side) and the Government and the other defendants (on the other side) was whether the decree should be confined, as to declaration of illegality, to the price fixing provision in the license agreements. Strenuously, USG contended for such limitation. This appears not only in its arguments and briefs in connection with the June 14, 1949 hearing but in its original suggestions as to prospective Articles III, IV, V and VI. As a companion and resultant position, USG urged that, while the existing agreements should be *can-*

celled, as of the date of the decree, only the minimum [fol. 1567] price provision should be declared illegal. The result of and purpose of these contentions would be to leave the agreements valid—therefore enforceable—until entry of the decree, except for the minimum price provision. It was in this setting and in relation to these contentions, that USG expressed its apprehensions above set out. The contest was whether the agreements were illegal only as to minimum price provisions or *in toto.* The decree of November 7, 1949 declared the agreements "illegal, null and void" in entirety.

The same reasoning as to Article IV would apply to the Final Decree unless the situation is affected by the later Supreme Court decisions herein or by what occurred in this Court on the last remand (in connection with the entry of the Final Decree here). We have examined the meager original file (in the Clerk's Office) as to what took place in this Court after the remand on the 340 U. S. appeal. We find nothing except counter suggested forms of decree filed by the Government and by USG. Neither contains anything expressly bearing upon our problems relating to this period covered by these USG suits. Apparently, this Court took these submitted forms and shaped its Final Decree of May 15, 1951 in endeavoring to follow the directions of the Supreme Court as announced in 340 U. S. 76.

Supreme Court Opinions. Concisely summarized, the three opinions of the Supreme Court made the following determinations which need consideration in connection with the point II of this opinion. In 333 U. S. 364, the Court decided (1) that the defendants had "acted in concert"—conspired—to control prices and to monopolize the gypsum industry; (2) that the instrumentalities created and employed to effectuate these purposes were license [fol. 1568] agreements covering patents owned or controlled by USG; and (3) that such agreements covered control (a) of prices of patented gypsum board (expanded in 340 U. S. 76 to cover gypsum products), (b) control or affection of prices of unpatented gypsum products, and (c) control over terms and conditions of sale and distribution thereof. In the course of this opinion, the Court

announced that the motive—good faith in reliance on the belief that such agreements were lawful under *United States* v. *General Electric Co.*, 272 U. S. 476— did not bar such patent exploitation as here found. The case was remanded for further proceedings.

When this Court granted a summary judgment on this remand and entered its decree, both the Government and the defendants appealed. The Government objected to the decree as being too narrow. The defendants contended their proffer of proof revealed issues of fact which this Court should have determined instead of granting the summary judgment. The Supreme Court affirmed Article III of that decree to the effect that sections 1 and 2 of the Act had been violated; entered an injunction against "enforcing in any manner whatsoever" the license agreements (339 U. S. 960); and dismissed the appeal of the defendants (p. 959).

On the appeal by the Government, that Court altered and broadened some of the provisions of our decree and remanded the case "for further proceedings in conformity with this opinion" (340 U. S. 76, 95). In that opinion there was no direct reference to a situation such as is now presented to us arising from these USG suits; Article IV was not changed.

In that opinion the Court stated (pp. 88-90):

> "A trial court upon a finding of a conspiracy in restraint of trade and a monopoly has the duty [fol. 1569] to compel action by the conspirators that will, so far as practicable, cure the ill effects of the illegal conduct, and assure the public freedom from its continuance. Such action is not limited to prohibition of the proven means by which the evil was accomplished, but may range broadly through practices connected with acts actually found to be illegal. Acts entirely proper when viewed alone may be prohibited. The conspirators should, so far as practicable, be denied future benefits from their forbidden conduct.
>
> "The determination of the scope of the decree to accomplish its purpose is peculiarly the responsibility of the trial court. Its opportunity to know the record and to appraise the need for prohibitions or affirma-

tive actions normally exceeds that of any reviewing court. This has been repeatedly recognized by us. Notwithstanding our adherence to trial court responsibility in the molding of a decree as the wisest practice and the most productive of good results, we have never treated that power as one of discretion, subject only to reversal for gross abuse. Rather we have felt an obligation to intervene in this most significant phase of the case when we concluded there were inappropriate provisions in the decree. In resolving doubts as to the desirability of including provisions designed to restore future freedom of trade, courts should give weight to the fact of conviction as well as the circumstances under which the illegal acts occur. Acts in disregard of law call for repression by sterner measures than where the steps could reasonably have been thought permissible. We turn then to the Government's proposals for modification of the decree on the assumption that only a violation through concerted industry license agreements has been proven, but recognizing, as is conceded by defendants, that relief, to be effective, must go beyond the narrow limits of the proven violation."

Evaluating all of the foregoing matters and those now before us, we have some doubt as to whether Article IV is firm ground and it seems wiser to resolve those doubts against the contention that this Article, by fair implication, covers our situation. We are less disturbed in so resolving this doubt by the consideration that we can reach the same ultimate result over ground that we deem firm.

Newark and Ebsary. In Footnote 9 hereinbefore, we have referred to an additional Count (VI) in the USG petitions against those companies. This seems an appropriate place to determine that matter and, also, of another [fol. 1570] feature in those two petitions. The first matter is whether the patent covered in those Counts is included in list of patents defined in Article II of the Decree. The second is whether those two companies are liable for infringement of that, as well as other patents set forth in Counts I to V inclusive.

As to the first of these two matters. Application for this patent was filed by Roos on August 15, 1929 and later assigned to USG, to which the patent was issued on June 16, 1936. This patent related to the use of dextrinized starch in gypsum board core composition and method of manufacturing same. USG contends that this patent was not included in any of the license agreements with either of these companies. This, the companies deny. This patent (No. 2,044,401) was obviously an improvement patent. As such, we think it was included as paragraph 18 of the licenses to each of these companies (See Transcript in the Supreme Court, October Term, 1947, No. 13, pp. 4416 and 4488). Also, Article II of this Final Decree defines "Patents" as meaning "United States Letters Patent and applications [therefor] * * * relating to gypsum board, its processes, methods of manufacture or use, now [May 15, 1951, the date of the Decree] owned or controlled by" USG. Also, the broadening of Article II, § 3 by the Supreme Court (340 U. S. at p. 90) seems directly to include "improvement" patent subject matter.

As to the second matter. Seasonably after entry of the Final Decree, National and Certain-Teed applied for and received licenses thereunder. Newark and Ebsary have never applied therefor. In the USG petitions against Newark and against Ebsary, it seeks recovery (Counts I-II) for license royalties on patents covered by the old [fol. 1571] licenses—that recovery included only the period ending with the Final Decree. Each of the succeeding Counts sought recovery "to the date of filing this complaint."

We have already disposed of all recovery up to May 15, 1951 (the Final Decree). Our immediate concern is with the period between this entry of the Decree and the filing of these USG actions, early in 1953. Neither Newark nor Ebsary have filed answer in these USG suits. We were informed in this presentation, that such answers would include a denial of use of these patents during this later period. Such defenses would obviously pose the direct issue of infringement *vel non* since this Decree. We think trial of that issue before the New York and New Jersey District Courts should not be interfered with here. There

is no room, in this situation, for application of the multiplicity of actions rule, since each of these two cases must depend, as to this issue, upon its own set of facts. Nor do such limited issues affect the Final Decree here in any respect.

III—Modification

It seems to us that there is some inter-mixing of the positions (as argued by both sides) of the legal principles of "implementation" of what is claimed to be required by the Decree (as it presently is) with the right and duty as to modification of the present Decree. Although the same practical effect might result from either "implementation" or modification, yet the legal considerations which control and limit the use of each differ from those applicable to the other.

We think this divergence lies in the different purposes to be served based upon construction of different phases of a decree. As to implementation, the search is for the specific provisions or for the revealed broad purposes [fol. 1572] and intendments of a decree. If such search clearly shows such provisions or such intendment, implementation may—possibly must—be employed. If such does not appear, then resort may be had to expressed or implied powers to modify. The bases and the limits of the power and as to the duty to modify (if power exists) depend upon some considerations which differ from those governing implementation. We think the difference between the two remedies is exampled in *Hughes* v. *U. S.*, 342 U. S. 353 at 356-8. The purpose and the permissible function of an order for modification of an anti-trust decree is to cover something within the broad purposes of the decree but which, for some proper reason, was not included in the existing decree. Almost always, such modifications are concerned with remedies. Usually they concern situations which were either overlooked at the time the decree was entered or which have arisen or developed after the decree.

Here, we have no doubt of our power to make any *proper* modifications. Such power being expressly reserved in Article X of the Decree, we do not have to rely on any general equitable doctrine concerning the powers

of a court of equity to protect and enforce its decrees, although these reservations in Article X express the purposes of the general equity doctrine, namely, to construe, carry out and enforce the Decree.

However, any and all powers (expressed or implied) to modify an equity decree have other limits than "the length of the Chancellor's foot." In this respect, we face the two contentions of USG: (1) that the situation arising from the USG suits was a matter "not then [when the Decree was entered] before the [this] Court or intended [fol. 1573] to be decided by it" and, therefore not within the Final Decree; and (2) that, if it is within the power of this Court to modify the Decree so as to enjoin its suits, "there is no sound, equitable reason why" it should be thus enlarged. These two USG contentions present the successive questions of power to modify and of discretion in the use of any existing power.

Generally speaking, there is no doubt that a court of equity has power to modify its decrees so as to make them fully effective. USG argues and cites cases dealing with the limitations on such courts in construing their decrees.[10] We may accept them as announcing the broad

---

[10] Such rules apply to modifications. USG presents them under the headings and citations following.

"(1) Injunctive provisions in a decree must be precise and specific," citing *Shine Chain Theatres* v. *United States*, 334 U. S. 110, 126; *Hartford-Empire Co.* v. *United States*, 323 U. S. 346, 410; *Swift & Co.* v. *United States*, 196 U. S. 375, 396, 401; Federal Rules of Civil Procedure, Rule 65(d).

"(2) A Decree is limited in its application to the issues actually presented and intended to be adjudicated at the time of entry," citing *Oklahoma* v. *Texas*, 272 U. S. 21, 43; *United Shoe Machinery Co.* v. *United States*, 258 U. S. 451, 460; *Vicksburg* v. *Henson*, 231 U. S. 259, 268-273.

"(3) Plain and unambiguous terms of a decree may not be extended or contracted by construction," citing *Hughes* v. *United States*, 342 U. S. 353, 357; *United States* v. *International Harvester Co.*, 274 U. S. 693, 702-3; *Terminal*

doctrine that a decree may not be enlarged, beyond its intended proper scope, by the medium of modification.

In examining this matter of power we must not lose sight of the character of a decree in an anti-trust case. [fol. 1574] While the general legal rules governing modification of decrees are not exempt from application in such cases, yet the character of such litigation permits—sometimes requires—a degree of elasticity. This feature comes into existence because of the situation that such a decree is designed vitally to change an unlawful, but existing, economic arrangement into such rearrangement as will remove the unlawful features. In framing such a decree, the Court is always necessarily acting with the knowledge that the remedies it then deems sufficient may, from experience thereafter, prove to be incomplete or defective—either because of lack of foresight at the time the decree is formed or because of subsequent happenings or conditions: In short, such a decree can rarely *crystallize* the entire matter. There must be a measure of only *gelling* which is susceptible of modification. Such we think is the teaching of *Hughes* v. *United States*, 342 U. S. 353, 357 and of *United States* v. *Swift & Co. et al.*, 286 U. S. 106, 114, as well as other cases.

Therefore, the question here, as to power, is whether the modifications urged by Petitioners would be an improper enlargement or (as contended by Petitioners) are proper to accomplish the purposes of the Decree. The determinative test is whether or not such modification is reasonably necessary to effectuate the basic purposes of the Decree.

The situation here is that Article IV of this Final Decree did not expressly or impliedly cover the character of suits now brought by USG for infringement or for *indebitatus assumpsit* or for *quantum meruit*. It neither allowed nor forbade such. It simply made no reference to them at [fol. 1575] all. Some months after the Decree became

---

Railroad Ass'n. of St. Louis v. *United States*, 266 U. S. 17, 27, 29; *Butler* v. *Denton*, 150 F. 2d 689; *Union Pacific R. Co.* v. *Mason City & Ft. Dodge R. Co.*, 165 F. 844, 852 (rev. on other grounds 222 U. S. 237); *St. L. K. C. & C. R. Co.* v. *Wabash R. Co.*, 152 F. 849, 852 (modified 217 U. S. 247).

final, these suits were begun and later brought to our attention for action.

We have, hereinbefore, determined that they involved violations of the Decree as to the first two Counts of each. We now hold that we have jurisdiction to consider whether the Decree should be modified to affect prosecution of the Counts for infringement, for *indebitatus assumpsit* and for *quantum meruit*.

We think these "basic purposes" are to be sought by consideration of the purposes of this Anti-Trust suit, of the opinions of the Supreme Court, the proceedings in this Court as to formation of a decree on the two remands, and upon the terms of the Final Decree.[11]

This was an Anti-Trust action charging violations, by the defendants therein, of Sections 1, 2 and 3 of that Act. The Supreme Court, in its three opinions (333 U. S., 339 U. S., and 340 U. S.), determined violations of Sections 1 and 2 of the Act through conspiracy to restrain interstate commerce and to monopolize trade therein in the gypsum industry; that these results had been accomplished through concerted action under eighteen similar patent license agreements granted by USG to the other defendants; and that such license agreements were illegal, null and void. To cure this situation, that Court affirmed Article III of the November 7, 1949 decree of this Court and enjoined defendants, pending further order of the Court, "from (1) enforcing in any manner whatsoever the provisions of their current license agreements fixing, main- [fol. 1576] taining, or stabilizing prices of gypsum board or the terms and conditions of sale thereof, and (2) from entering into or performing any agreement or understanding in restraint of trade and commerce in gypsum board among the several states in the eastern territory of the United States by license agreements to fix, maintain, or stabilize prices of gypsum board or by license or other concerted action arranging the terms and conditions of

---

[11] Under the preceding point (II—Scope of Article IV.) of this opinion, we have examined such features of these items applicable to that discussion. We will try to avoid repetition here except as clarity may require.

sale thereof" (333 U. S. 960). On November 27, 1950, this injunction order was "continued in effect until the entry of a final decree in the District Court." [12]

In discussing the duty of the trial court in formulating its decree in an anti-trust case where conspiracy in restraint of trade and monopoly have been determined, the Court (in 340 U. S. 76 at pp. 88-90) stated:

> "A trial court upon a finding of a conspiracy in restraint of trade and a monopoly has the duty to compel action by the conspirators that will, so far as practicable, cure the ill effects of the illegal conduct, and assure the public freedom from its continuance. Such action is not limited to prohibition of the proven means by which the evil was accomplished, but may range broadly through practices connected with acts actually found to be illegal. Acts entirely proper when viewed alone may be prohibited. The conspirators should, so far as practicable, be denied future benefits from their forbidden conduct.
>
> "* * * In resolving doubts as to the desirability of including provisions designed to restore future freedom of trade, courts should give weight to the fact of conviction as well as the circumstances under which the illegal acts occur. Acts in disregard of law call for repression by sterner measures than where the steps could reasonably have been thought permissible. We turn then to the Government's proposals for modification of the decree on the assumption that only a violation through concerted industry license agreements has been proven, but recognizing, as is conceded [fol. 1577] by defendants, that *relief, to be effective, must go beyond the narrow limits of the proven violation*" [italics added].

When the case came back here on this last remand, this Court directed (order of January 26, 1951) filing of sug-

---

[12] This extension order is contained in the original mandate of the Supreme Court to this Court on the remand under its opinion in 340 U. S.

gestions, as to form of decree, by plaintiff (Government) and by the defendants.

The violations of the Act are declared in Article III, which is the heart of the Final Decree. The other Articles of the Decree concern the remedies and methods which the Supreme Court and this Court then thought sufficient to cure the unlawful conspiracy and monopoly. Article X performed the function of expressly reserving jurisdiction to take further action if experience thereafter should make such necessary or advisable fully to effectuate these purposes of destroying the monopoly and the conspiracy and denying the fruits thereof.

The practical situation present in this matter of Modification consists mainly of the following:

(1) For some years extending into the trial of this Anti-Trust case, the gypsum industry had been effectively organized so that prices and methods of distribution were controlled through the medium of patent license agreements covering patents and applications therefor owned or controlled by USG. These agreements were between USG and each of the various other defendants. The agreements included both process and machinery covered by the patents.

(2) On the first trial on the merits, June 15, 1946 (67 F. Supp. 397), this Court determined that, under its construction of *United States* v. *General Electric Co.*, (272 U. S. 476), the separate license agreements were legal (pp. 421-441); and that these agreements were made *bona fide* with no ulterior purpose to violate the Act (pp. 458-484).

(3) On appeal (333 U. S. 364), the Supreme Court [fol. 1578] reversed and remanded (March 8, 1948) deciding that the industry-wide license agreements, entered with mutual knowledge of the licensor and of all of the different licensees, under which prices and distribution methods would be controlled, established an unlawful conspiracy and monopoly; and that "* * * regardless of motive, the Sherman Act barred patent exploitation of the kind that was here attempted" (p. 393).

(4) The Supreme Court asserted "Of course, this appeal must be considered on a record that assumes the validity

of all the patents involved" (333 U. S. at 388). No change was made in that "record" in any subsequent proceedings in this Court.

(5) Almost immediately following this opinion of the Supreme Court, each of these four defendants stopped paying accrued or future royalties or paying otherwise for use of the patents covered by the license agreements. No payments of any kind were made until new compulsory licenses were granted, under the Final Decree, to National and Certain-Teed—Ebsary and Newark did not take out new licenses.

(6) The manufacturing plants of the licensees had been and were organized for use of these patent-covered methods.

(7) In the proceedings in this Court in regard to the formation of the November 7, 1949 decree, issues were presented as to whether the then license agreements should be nullified entirely or in a limited or qualified degree. It was in this connection, that USG argued for a limited or qualified prohibition; and made known its apprehension that an entire nullification might affect its expectation of receiving compensation for the use of its patents [fol. 1579] by the licensees during our period. This Court framed Article IV nullifying the license agreements entirely, as being illegal.

(8) On the defendants' appeal from that decree, the Supreme Court affirmed Article III and entered its injunction order (339 U. S. 960). In this injunction the Court expressly forbade defendants from "enforcing in any manner whatsoever" the existing license agreements and this status was thereafter continued up to the Final Decree.

(9) On the Government's appeal, the Supreme Court announced (340 U. S. at 87) that "good intentions" in the situation of this case was no defense; and that here (p. 88) this Court had the duty of compelling action to "cure the ill effects of the illegal conduct"—such action not being "limited to prohibition of the *proven means* [italics added] by which the evil was accomplished, but may range broadly through practices *connected with* [italics added] acts actually found to be illegal. * * * The conspirators should, so far as practicable, be denied future benefits

from their forbidden conduct." The Court stated (340 U. S. at 89) that "in resolving doubts as to the desirability of including provisions designed to restore future freedom of trade, courts should give weight to the fact of conviction as well as the circumstances under which the illegal acts occur."

Considering this situation, we think the Final Decree should be modified to include a denial of recovery upon the infringement Counts of the USG petitions. Our reasons for this determination are as follows.

The basic thing which made this conspiracy and monopoly possible was the existence of the patent (owned, controlled or applied for) situation. It was the unlawful use by defendants of the monopoly rights, normally inhering [fol. 1580] in patent grants, which violated the superior rights protected by the Anti-Trust Act. One result of this unlawful use was to create an economic situation where the conspirators—other than USG—had conditioned their business operations upon the continued use of these patent rights which had been given them by the license agreements. When the Supreme Court (333 U. S. 364) determined these license agreements to be violative of the Act, these licensees were placed in an uncertain and perilous position. They were operating based on the licenses which were declared violations of the Act. They elected to disregard the license agreements and to continue use of the patented devices and methods.

We think a close parallel—if not indeed a here controlling guide—is to be found in the two Hartford-Empire cases (323 U. S. 386 and 324 U. S. 570). In 323 U. S., one of the two broad issues was whether "the provisions of the decree are right" (p. 393). The District Court had appointed a receiver of Hartford *pendente lite*, whose duties included receipt of royalties from patent licensees under existing licenses from Hartford. A provision of the decree was that these royalties should be repaid to the licensees when the decree became final. In disposing of this provision, the Court (p. 411) directed that the receivership should be wound up; and "The royalties paid to the receiver by Hartford's lessees may, unless the District Court finds that Hartford has, since the entry of the

receivership decree, violated the antitrust laws, or acted contrary to the terms of the final decree as modified by this opinion, be paid over to Hartford. In any event Hartford should receive out of these royalties compensation on a *quantum meruit* basis, for services rendered to lessees."

[fol. 1581] The second appeal (324 U. S. 570) was upon petition of the Government "for clarification or reconsideration" of the opinion on the prior appeal. The Court (p. 571) quoted from its prior opinion what we have just above quoted. The Court (p. 572) disposed of the matter as follows:

> "The Government points out that had it not been for the receivership, many of the licensees (most of whom were not parties to the proceeding) would have paid no further royalties to Hartford, and that they may be able to justify refusal of payment of any royalties from the date of the receivership, and ought not to be put into the position of recovering royalties paid to the receiver, from Hartford.
>
> "It has been open to each of these licensees at any time to repudiate its lease and license, to return the leased machinery, to refuse to pay further rentals or royalties, and to defend any suit arising out of such refusal to pay, *either for infringement or otherwise* [italics added]. It may be that licensees have not taken this course because they relied on the decree as entered by the District Court. In such reliance they may have expected that the moneys paid the receiver would be repaid to them.
>
> "In view of the modifications required by the opinion of this court, such licensees must pay reasonable rental and service charges on a *quantum meruit* basis (leaving out of consideration any amount otherwise payable for the privilege of practicing the patented inventions involved) in respect of the machines used in the interim. Unless Hartford, since the entry of the decree by the District Court, has been guilty of some added violation of the anti-trust laws, licensees must elect (a) to remain licensees on such reasonable rental and royalty basis for the future as the Dis-

trict Court may fix, or (b) repudiate the leases and litigate their rights as against Hartford to retain any portion of the rents and royalties paid. Depending upon such election of each of the lessees, the District Court may, on the application of each, make an appropriate order for the disposition of the fund in the light of the licensees' election and the principles stated in the opinion of this Court."

The here particularly applicable part of this quotation is "In view of the modifications required by the opinion of this court, such licensees must pay reasonable rental and service charges on a *quantum meruit* basis (*leaving* [fol. 1582] *out of consideration any amount otherwise payable for the privilege of practicing the patented inventions involved*) in respect of the machines used in the interim" [italics added].

We think it a fair deduction from the sentence just quoted, that the Court had in mind the differences in the bases of recovery in *quantum meruit* and for infringement; and also the differences in measurement of damages or recovery for infringement[13] and on *quantum meruit*. The prayer on these infringement Counts is for "not less than a reasonable royalty."

Both because of the practical and legal situation here, and, also, the teaching in Hartford-Empire case, we think the Final Decree should be modified to cover prohibition from prosecuting the USG suits in so far as they are based on patent infringement during the period covered by those suits.

Count III of USG petitions is a common law action of *indebitatus assumpsit* based on a pleaded express contract. That contract and the relief sought are so stated and designed to bring about the identical recovery that would be realized had the actions been for recovery upon the royalties provided in the illegal agreements. This

---

[13] This infringement Count V in the USG is brought under 35 U. S. C. A. § 67 which authorizes up to treble damages recovery. These Counts allege willful, deliberate and persistent infringement.

is but a left-handed, indirect method for recovering such royalties.[14] "Forms of action are a means of administering justice rather than an end in themselves * * *" (1 Am. Jur. p. 439). The Decree should be modified to enjoin prosecution of these Counts (Count III).

Count IV of USG petitions is for *quantum meruit* covering the use of the patents. Under the Hartford-Empire opinion (324 U. S. 570, 572), we think this Count is proper and prosecution thereof should not be enjoined unless USG is barred by unpurged misuse of its patents.

IV—Misuse and Purge

In all that we have heretofore stated in this opinion, we have laid aside consideration of the related issues of misuse of patents by USG and of purge of misuse. These issues are now to be examined. We shall first state the pertinent legal rules and then the factual situation to which the rules are to be applied.

The Law. It is an age-old doctrine of Equity Jurisprudence that equity will deny use of its powers to a wrongdoer. This is the doctrine of "unclean hands". This rule is applicable where the owner of patent rights seeks to extend those rights beyond the limits of his patent monopoly. This is the doctrine of "misuse" of patents.

---

[14] This situation reminds of the expression in *International Salt Co.* v. *U. S.*, 332 U. S. 392, 400 where the Court stated:

> [fol. 1583] "* * * The District Court is not obliged to assume, contrary to common experience, that a violator of the antitrust laws will relinquish the fruits of his violation more completely than the court requires him to do. And advantages already in hand may be held by methods more subtle and informed and more difficult to prove, than those which, in the first place, win a market. When the purpose to restrain trade appears from a clear violation of law, it is not necessary that all of the untraveled roads to that end be left open and that only the worn one be closed."

This does not nullify the patent but prevents enforcement of it. Because of the nature of patent grants and because of the nature of this equity doctrine, such owner may, as to *future* protection of his rights and after the bale-[fol. 1584] ful effects of the misuse have been fully dissipated, relieve himself of this impediment by ceasing the unlawful use. This is the doctrine of "purge". These rules apply to whatever the form of the suit by the patent owner may be (*Edward Katzinger Co.* v. *Chicago Mettalic Mfg. Co.*, 329 U. S. 394, 399-400).[15]

The Facts. The issues as to facts are: (1) whether there was misuse; (2) whether, if there was misuse, it is shown as matter of law; and (3) whether, if misuse existed, it is shown, as matter of law, to have been purged before this period or is yet an undetermined issue of fact.

We think there was misuse by USG, as matter of law on the facts here, which has not been purged. The reasons for these conclusions follow. The Supreme Court (333 U. S. 364) determined that USG had misused its patents to create various unlawful restraints effecting monopolization of the entire gypsum industry. This mis-

---

[15] Some of the cases applying or illustrating the limits of the matters in this paragraph are *United States* v. *National Lead Co.*, 332 U. S. 319, 335; *Bruce's Juices* v. *American Can Co.*, 330 U. S. 743, 755; *Edward Katzinger Co.* v. *Chicago Mettalic Mfg. Co.*, 329 U. S. 394, 399-402; *Transparent-Wrap Machine Co.* v. *Stokes & Smith Co.*, 329 U. S. 637, 645; *Hartford-Empire Co.* v. *United States*, 324 U. S. 570, 571-572; *Same* v. *Same*, 323 U. S. 386, 414-419; *Mercoid Corporation* v. *Mid-Continent Invest. Co.*, 320 U. S. 661, 665-672; *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173, 175; *Morton Salt Co.*, v. *G. S. Suppiger Co.*, 314 U. S. 488, 491-494; *B. B. Chemical Co.* v. *Ellis et al.*, 314 U. S. 495; *Leitch Mfg. Co.* v. *Barber Co.*, 302 U. S. 458, 461-463; *Altoona Publix Theatres* v. *American Tri-Ergon Corporation*, 294 U. S. 477, 493; *Carbide Corporation of America* v. *American Patents Development Corporation*, 283 U. S. 27, 31-35; *Continental Wall Paper Co. v. Louis Voight & Sons Co.*, 212 U. S. 227, 256 *et seq.*

use extended to price regulation, to suppression of related or similar unpatented products, and to regulation of methods and agencies of distribution. The effective instrumentalities used by USG were patent license agreements containing various restrictive provisions.

[fol. 1585] One such provision (covering prices) had not been used for some years (since 1941) but the right to use had not been abandoned but expressly retained.

In connection with formation of the first decree (November 7, 1949), USG opposed strenuously a suggested provision declaring the license agreements "illegal, null and void". It contended the provision should go no further than to declare the "minimum price provisions" of the licenses to be "illegal" and that the licenses be *"hereby cancelled and terminated,"* suggesting that the broader provision had the purpose to relieve the licensees "from accounting with respect to anything done before or *after* the decision of the Supreme Court" [italics added].

On the appeal of the defendants (339 U. S. 960), that Court enjoined defendants "from enforcing in any manner whatsoever the provisions of their current license agreements * * *." This order was made May 29, 1950 and continued in force until the Final Decree (May 15, 1951).

In each of the present USG suits, Counts I and II are expressly based on the old license agreements and seek to recover the royalties provided therein in the amounts provided for and measured by those agreements. Counts III and IV are, respectively, actions of *indebitatus assumpsit* and *quantum meruit* posed on the same underlying factual situation created by the license agreements. The amounts sought in each of those two Counts is precisely the same as stated in Counts I and II—in Count III, the amount is measured as in the agreements. Count V (also Count VI in Newark and Ebsary suits) is for infringement based on deliberate infringement and praying recovery for an amount ("not less than a reasonable royalty") which exactly equals the amount measured by the unlawful agreements.

[fol. 1586] We think this course of conduct, as clearly shown by the proceedings of record in the Anti-Trust case and in these suits by USG, must be construed as

meaning that USG has continued to misuse its patents by seeking recovery, directly and indirectly, on the illegal license agreements up to this time. We think we should exercise our discretion and entertain these petitions on the ground of preventing a multiplicity of actions which affect the complete effectiveness of the Final Decree; and that USG should be enjoined from further prosecution of these actions.

USG urges that "this Court on the record before it knows of a number of facts any one of which constitutes evidence of purge at a time prior to May 15, 1951." USG then discusses five of such facts, with the reservation that they are "only illustrative and not the only or exclusive facts showing purge." In spite of this cautionary reservation, we must conclude that USG is presenting here those matters which it regards as most potent in showing purge.

The first of these five is that USG did not fix prices, under its licenses, after July 8, 1941. This is true. However, its effect is dissipated by two considerations: first, the notices that minimum prices bulletins would be suspended included the statement that such suspension would continue "until we decide again to exercise our right to do so";[16] and, second, this price fixing provision is inseparably joined with the other provisions found violative of the Act (*Edward Katzinger Co.* v. *Chicago Mettalic Mfg. Co.*, 329 U. S. 394; *MacGregor* v. *Westinghouse Elec. & Mfg. Co.*, 329 U. S. 402).

[fol. 1587] The second claimed purging act is based on the claimed acquiescence of USG to the repudiation of the illegal agreements by Petitioners following the first appeal (333 U. S.). The record herein does not support the claim that USG "acquiesced" in these cessations of payments by Petitioners. The position of USG at that time is more accurately described, by one of its counsel, at the argument before us.[17] Thereafter, nothing appears bearing on

---

[16] The "potential power" (*Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436, 458) remained.

[17] Counsel stated that the first decision of the Supreme Court (333 U. S.) "came as quite a shock to the old in-

"acquiescence" until the hearings (June 14, 1949) and the memoranda in connection therewith in respect to the summary judgment and resultant form of decree to be entered thereon. In that connection, USG not only did not claim that the licenses had been rescinded but it urged strongly that only the minimum price fixing provisions were illegal and that, in all other respects, the license agreements should be "cancelled" only as of the date of the decree to be entered. At that time and thereafter, it made clear that it expected to have and waived no rights to have "compensation" for the use of its patents; however, there was no suggestion as to what form enforcement of those rights would take if not voluntarily paid. Not until these USG suits were filed was that made clear. Such suits included Counts for recovery [fol. 1588] under the unlawful agreements. Throughout, there is no basis for this claimed "acquiescence".

The third claimed purging act is the offer by USG, early in the Spring of 1949 (February or March), of new forms of licenses. Those proffered forms of licenses are not effective as acts of purge, as to our period, for two reasons. First, they were not intended to become effective until the entry of the decree because it was not until that time that the unlawful license agreements were to be "cancelled and terminated" (Article IV, 2 of the form

---

dustry. We were not expecting that. And everybody stopped in their tracks as far as these license agreements were concerned.

"The licensees stopped paying royalties. They stopped making reports. As National in its petition sets out, they stopped doing anything under the license, because the Supreme Court had held them unlawful.

"U.S.G. likewise did nothing to try to enforce the license agreements. We just sort of were in a status quo during that period there as far as taking any action. No action was taken by us to enforce them. And that is why, in answer to your question, I wanted to postpone it to explain that situation. And that was that no effort was made to audit the books, no royalties were paid during this three-year period that is involved in this litigation out in Iowa, and New Jersey, and New York."

of decree submitted by USG on March 4, 1949). Second, they differed in several respects from the form approved by the Supreme Court (340 U. S. 76). That Court (p. 90) found the definition of gypsum board too restrictive; and also the time limit for applying for new licenses (pp. 93-4).

The Courts claimed act of purge is that USG had decided not to appeal from the decree of November 7, 1949, "unless the Government appealed, in which event it felt it would be required to appeal, in self defense." Why either this unacted upon decision not to appeal or why an appeal by the Government should in any way affect this matter of purge is not clear to us. The two appeals (USG and the Government) involved entirely different legal issues and situations. USG appealed from the entry of any decree "on the ground of their right to introduce material evidence" (340 U. S. at p. 82); the Government appealed solely "in an effort to have the provisions of the District Court decree enlarged" (340 U. S. at p. 82).

The fifth purging act (or situation) is that the Supreme Court (339 U. S. 960) enjoined USG, on May 29, 1950, from "enforcing in any manner whatsoever" the price provisions of the license agreements.[18] USG relies upon *Standard Oil Co.* v. *Clark*, 2 Cir., 163 F. 2d 917, 927, cer. den. 333 U. S. 873 and the two Hartford-Empire cases (323 U. S. 386, 411 and 324 U. S. 570, 572). In none of these citations was there found any attempt to extend unduly a patent monopoly beyond the entry of the final decree in the anti-trust litigations there involved. In each of these cases, the doctrine of patent misuse and purge was recognized but was found not effective in the situation then before those Courts. The USG suits now pending show conclusively that even yet it is striving to enforce the royalty provisions of the illegal patent license agreements.

[fol. 1589] [18] While not material in connection with this contention of purge, it is true that this injunction went beyond price fixing and extended to "by license or other concerted action arranging the terms and conditions of sale thereof [gypsum board]."

We think such an attempt is clear misuse of its patents; that such misuse yet continues; and that to allow prosecution of these suits would weaken the effectiveness of the Final Decree. As to *quantum meruit* Counts of the USG petitions, we think it will be sufficient if we enjoin further prosecution on the basis of preventing recovery in a multiplicity of suits wherein the misuse of the patents which were involved in this Anti-Trust suit is shown, as matter of law, to exist and not have been purged.

Conclusion

Our ultimate conclusions upon the issues here are as follow: (1) that we have jurisdiction to entertain and determine the issues presented by Petitioners; (2) that the Final Decree should be modified as indicated in point "III—*MODIFICATION*." of this opinion; (3) that further prosecution of all Counts of the USG suits should be enjoined.

[fol. 1590] Petitioners are granted thirty days from the filing of this opinion, to serve upon opposing counsel and to file with this Court, suggested form of decree and form of Conclusions and Findings.

[fol. 1591] (File Endorsement Omitted)

In the United States District Court for the District of Columbia

No. 8017 Civil

United States of America, Plaintiff,

v.

United States Gypsum Company, et al., Defendants

Dissenting Opinion—July 6, 1954

COLE, Judge, dissenting:

In reaching a different conclusion from that presented in the majority opinion, I find it advisable to present this statement of my reasons therefor, which statement be-

comes brief because of the excellent rehearsal by my colleagues of the background and present status of this litigation.

As so aptly stated by the United States, in its brief, "of course, when a court's jurisdiction is drawn in question this is the threshold question in the case." This litigation was initiated, as the title indicates, by the United States as the sole plaintiff and was against the defendants now appearing as defendant petitioners herein except USG which appears as defendant respondent thereto; also, initially, it had as its basis the protection of the public interest in enforcing provisions of the anti-trust laws. The final judgment, entered therein after many years of intensive [fol. 1592] litigation, found against all defendants in language clear, concise, and completely capable of interpretation to meet any applicable situation growing out of the relationship which was the subject matter thereof. *Inter Alia,* it adjudged unlawful under the anti-trust laws of the United States, and illegal, null and void each of the license agreements listed in the decree.

It is my view that the United States can be the sole spokesman for the public interest. *Buckeye Coal & Railway Company et al.* v. *Hocking Valley Railway Company et al.,* 269 U. S. 42. While there have been situations, such as in the case of *Missouri-Kansas Pipe Line Co.* v. *United States et al.,* 312 U. S. 502, which might be construed, to some extent, as tending to contradict the rule laid down in the *Buckeye* case, *supra,* I do not so regard it.

Article X of the decree in this suit is quite broad in providing that the parties may apply to this Court "at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith," but this does not, in my opinion, contain the right for the defendants to stand in the shoes of, or even with, the United States as a protector of the public interest in litigation of this character and, in so doing, settle their own private differences. Likewise, such litigation, initiated by the United States, will not permit the main action to be encumbered

with extraneous issues of a private nature. *United States* [fol. 1593] v. *Columbia Gas & Electric Corporation et al.*, 27 F. Supp. 116.

The opposite viewpoint looks for support to *Missouri-Kansas Pipe Line Co.* v. *United States, supra,* which was an anti-trust proceeding wherein a consent decree was entered under which consent decree a stockholder of the defendant corporation had the right to become a party which right he sought to exercise. The Attorney General approved the plan presented by the petitioner for modification of the original decree. It is significant that the court in dealing with this phase of the litigation said:

> • • • This, we are told, "is believed to satisfy the public interest," and so the Government desires to sustain the action of the court below without further litigation. We recognize the duty of expeditious enforcement of the anti-trust laws. But expedition cannot be had at the sacrifice of rights which the original decree itself established. We assume that the district court will adjust the right which belongs to Panhandle with full regard to that public interest which underlay the original suit.

Following a rehearsal of the chronological course this lengthy controversy pursued, the United States, in its brief, made this statement:

> It is, of course, probable that the courts in which suits have been brought will give effect to this Court's judgment, and dismiss, because of the judgment, all claims based on the voided license agreements. • • •
> • • • • • • •
> • • • The position of the United States, as set forth in its petition, is that said final judgment bars enforcement of any claim based in whole or in part upon any license agreement thus adjudged null and void, and that suit to recover upon any such [fol. 1594] claim constitutes an attempt to defeat the Court's final judgment. The petition prays, by way of relief, that this Court enjoin USG from asserting any claim, and from maintaining, instituting, or threat-

ening to institute any action, based in whole or in part on any license agreement which the Court had adjudged illegal, null and void.

The United States stated in its petition that *it takes no position as to whether USG's alternative claims for recovery on a quantum meruit basis or for infringement, as made in the four foregoing actions, are barred by this Court's final decree of May 15, 1951,* or as to whether this Court should enter an order enjoining USG from prosecuting such alternative claims. [Italics supplied.]

Just why this court, under the circumstances, should feel called upon, in view of the Government's position, to restrain prosecution of the pending suits in the several district courts and take upon itself the adjudication of the controversy between the defendants when that controversy involves issues, such as the right to recover under *quantum meruit* or infringement, as alleged, when the Government as the sole protector of the public interest in litigation of this character does not join the petitioners in such request for this court to do so, but by inference at least suggests that it is beyond the scope of the decree handed down in these proceedings, I do not appreciate. If this court restrained the prosecution of the pending suits to the extent the Government's position finds the recovery sought herein to be within that prohibited by the final decree, the right, if any, to the [fol. 1595] petitioning defendant, USG, to recover under *quantum meruit* or infringement would have remained for adjudication in the district courts. Thus, the suits pending therein would continue as presently docketed for trial. Also, the several district courts wherein the suits are now pending are quite capable of construing and interpreting the meaning of the judgment passed in these proceedings, as applied to the pleadings and factual record subsequently to be developed in those courts, and rule thereon accordingly.

I do not find the situation before us as one requiring this court to spell out in supplementation of its original decree every conceivable type of litigation which might

develop between the defendants and presumed to have grown out of the relationship stricken down. Neither do I find the existing situation to be one calling for resort to Article X of the judgment by this court in order to construe, carry out, or enforce said judgment. Inherent power rests with this court always in proceedings of this character to enforce its judgments when such appears advisable. I do not, however, find need for the application of such power in these proceedings.

In the light of the foregoing expression of my views, I find it unnecessary to discuss other points argued in the case.

[fol. 1596] UNITED STATES DISTRICT COURT
DISTRICT OF COLUMBIA

[Title omitted]

Findings of Fact, Conclusions of Law, and Decree Proposed by National Gypsum Company and by Certain-Teed Products Corporation—Filed August 16, 1954.

[fol. 1597] Proposed Findings of Fact by National Gypsum Company and Certain-Teed Products Corporation.

2* 1. On August 15, 1940, the United States brought an Anti-Trust action (Civil No. 8017) against United States Gypsum Company, et al., which were engaged in the mining of gypsum rock and in the manufacture and sale of gypsum products. The complaint charged that a controlling unlawful combination was effectuated by means of substantially uniform patent license agreements between USG and the other manufacturing defendants as licensees.

28 2. On the first trial on the merits, June 15, 1946 (67 F. Supp. 397), this statutory Court of three judges determined that, under its construction of *United States* v. *General Electric Co.*, (272 U. S. 476), the sep-

---

* Page numbers in the margin, unless otherwise indicated, refer to those pages in the Court's opinion, filed July 6, 1954, from which these Findings and Conclusions were derived.

arate license agreements were legal (pp. 421-441); and that these agreements were made *bona fides* with no ulterior purpose to violate the Act (pp. 458-484). At
2 the close of evidence for the United States, the Court sustained a motion to dismiss the complaint under Rule 41(b) of the Federal Rules of Civil Procedure upon the ground that on the facts and the law the Government had shown no right to relief (*U. S.* v. *U. S. Gypsum Co., et al.*, 67 F. Supp. 397).

2 3. The Government appealed and the Supreme Court reversed and remanded "for further proceedings in conformity with this opinion." (333 U. S. 364, 402). This decision was on March 8, 1948 with rehearing denied on April 5, 1948 (333 U. S. 869).

[fol. 1598] 4. The Supreme Court (333 U. S. 364)
28 decided that the industry-wide license agreements, entered with mutual knowledge of the licensor and of all of the different licensees, under which prices and distribution methods would be controlleld, established an unlawful conspiracy and monopoly; and that "* * * regardless of motive, the Sherman Act barred patent exploitation of the kind that was here attempted" (p. 393).

34 5. The Supreme Court (333 U. S. 364) determined that USG had misused its patents to create various unlawful restraints effecting monopolization of the entire gypsum industry. This misuse extended to price regulation, to suppression of related or similar unpatented products, and to regulation of methods and agencies of distribution. The effective instrumentalities used by
19-20 USG were patent license agreements containing various restrictive provisions. Such agreements covered control (a) of prices of patented gypsum board (expanded in 340 U. S. 76 to cover gypsum products), (b) control or affection of prices of unpatented gypsum products, and (c) control over terms and conditions of sale and distribution thereof.

28, 30 6. One result of the patent misuse was to create an economic situation where the conspirators—other than USG—had organized their manufacturing plants and

conditioned their business operations upon the continued use of these patent rights which had been given them by the license agreements.

30 7. When the Supreme Court (333 U. S. 364) determined these license agreements to be violative [fol. 1599] of the Act, these licensees were placed in an uncertain and perilous position. They were operating based on the licenses which were declared violations of the Act. They elected to disregard the license agreements and to continue use of the patented devices and methods.

28 8. Almost immediately following this opinion of the Supreme Court, each of the four defendant petitioners stopped paying accrued or future royalties or paying otherwise for use of the patents covered by the license agreements. No payments of any kind were made until new compulsory licenses were granted, under the Final Decree, to National and Certain-Teed, which were retroactive to May 15, 1951, the date of the Final Decree. Ebsary and Newark did not take out new licenses.

14 9. After rehearing was denied (April 5, 1948, 333 U. S. 869), this Court held a conference of counsel which resulted ultimately in a motion by the Government for summary judgment, it being claimed that there was no genuine fact issue remaining to be determined. Defendants USG and Celotex filed offers of proof as to fact matters they deemed yet in issue. These two occurrences were in June 1948. Beginning in June 1948 and extending to June 14, 1949, numerous briefs and memoranda were filed by the various parties in connection with the motion for summary judgment, the offer of proofs, suggested findings of fact, and form and contents of decree to be entered.

14 10. On June 14, 1949 this Court held an extended hearing upon all of these matters. At the hearing, a majority of this Court made clear their intension

15 to sustain the motion for summary judgment; and [fol. 1600] counsel for all parties were given time to file suggestions and memoranda as to form of decree and other pertinent matters. Such suggestions and memo-

randa were filed up to August 12, 1949. Without further hearing, this Court entered its decree of November 7, 1949.

15 11. The hearing of June 14, 1949, and the written or printed suggestions and memoranda of the parties filed before, in connection with and after that hearing had to do (*inter alia*) with the various suggestions as to the form of decree to be entered, including the scope and purposes of what later became, in substance, Articles III, IV and VI of that decree. Practically all of the matters were concerned with prevention of violation in the future, that is, after the effective date of the decree to be entered. However, USG was much concerned with avoiding any provision in the decree declaring the licenses illegal, null and void in their entirety. In this connection it voiced its apprehensions as to whether these petitioners would be absolved from payment of royalties for the period involved here by such a provision in the decree.

17 12. In a Reply Memorandum filed by USG (July 23, 1949), are the following statements:

"The defendant licensees can have no purpose in making the suggestion that each patent license be adjudged illegal except to obtain some advantage with respect to the use of the patents. They apparently believe it will relieve them from accounting for anything done either before or after the Supreme Court's decision." (P. 6.)

18 "They have no right of any kind to Gypsum's patents in the future any more than if their licenses had expired without this litigation. With the cancellation of their present licenses they should only be placed in *statu quo* to the extent that any licensee desires to continue the use of any of Gypsum's patents under which it is presently licensed." (P. 8.)

[fol. 1601] "In the first place, Newark seeks a provision that each of the license agreements be adjudged unlawful under the anti-trust laws and illegal, null and void, which not only goes beyond the scope

of the determination by this court upon the motion for summary judgment but has for its purpose an attempt to be relieved from accounting, as stated before in this memorandum." (P. 9.)

"National, like Newark, is one of those companies which seeks to have the entire license contract declared illegal, apparently believing it will relieve them from accounting with respect to anything done before or after the decision of the Supreme Court." (P. 15.)

18 13. The main contention between USG (on one side) and the Government and the other defendants (on the other side) was whether the declaration of illegality in the proposed decree should be confined to the price fixing provision in the license agreements or whether it should apply *in toto* to the entire license agreements. Strenuously, USG contended for such limitation to the price-fixing provisions. This appears not only in its arguments and briefs in connection with the June 14, 1949 hearing but in its original suggestions as to
19 prospective Articles III, IV, V and VI. As a companion and resultant position, USG urged that, while only the minimum price provision should be declared illegal, the existing agreements should be *cancelled, as of the date of the decree.* The result of and purpose of these contentions would be to leave the agreements valid—therefore enforceable—until entry of the decree, except for the minimum price provision. It was in this setting and in relation to these contentions, that USG expressed its apprehensions above set out. The contest was whether the agreements were illegal only as to minimum price provisions or *in toto.*

19, 29 14. The decree of November 7, 1949 adopted the contention of the Government and the licensees and declared the agreements "illegal, null and void" in entirety.

[fol. 1602] 15. When this Court granted a sum-
20 mary judgment on the remand and entered its decree, both the Government and defendant USG ap-

pealed. The decree of November 7, 1949, therefore, never became effective. The Government objected to the decree as being too narrow and as inadequate to cure the ill effects of the illegal conduct of the defendants. USG contended its proffer of proof revealed issues of fact which this Court should have determined instead of granting the summary judgment.

16. On May 29, 1950, the Supreme Court dismissed the appeal of the defendants (339 U. S. 959) in a memorandum (339 U. S. 960) wherein it affirmed Article III of the November 7, 1949, decree and stating:

> "'* * * Article III of the decree of the District Court of November 7, 1949, reading as follows: 'The defendant companies have acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board and have monopolized trade and commerce in the gypsum board industry in violation of sections 1 and 2 of the Sherman Anti-Trust Act,' is affirmed. The corporate defendants and Samuel M. Gloyd, doing business as Texas Cement Plaster Company, are enjoined, pending further order of this Court, from (1) enforcing in any mannner whatsoever the provisions of their current license agreements fixing, maintaining, or stabilizing prices of gypsum board or the terms and conditions of sale thereof, and (2) from entering into or performing any agreement or understanding in restraint of trade and commerce in gypsum board among the several states in the eastern territory of the United States by license agreements to fix, maintain or stabilize prices of gypsum board or by license or other concerted action arranging the terms and conditions of sale thereof."

17. On the appeal by the Government, the Supreme Court altered and broadened some of the provisions of the decree of November 7, 1949 and remanded the case "for further proceedings in conformity with the opinion" (340 U. S. 76, 95). In that opinion

there was no direct reference to a situation such as is now presented to the Court arising from these USG suits; Article IV of the decree of November 7, 1949 of this Court which declared the license agreements illegal, null and void in their entirety was not changed.

20, 21 [fol. 1603] 18. In that opinion the Court stated pp. 88-90):

> "A trial court upon a finding of a conspiracy in restraint of trade and a monopoly has the duty to compel action by the conspirators that will, so far as practicable, cure the ill effects of the illegal conduct, and assure the public freedom from its continuance. Such action is not limited to prohibition of the proven means by which the evil was accomplished, but may range broadly through practices connected with acts actually found to be illegal. Acts entirely proper when viewed alone may be prohibited. The conspirators should, so far as practicable, be denied future benefits from their forbidden conduct.
>
> "The determination of the scope of the decree to accomplish its purpose is peculiarly the responsibility of the trial court. Its opportunity to know the record and to appraise the need for prohibitions or affirmative actions normally exceeds that of any reviewing court. This has been repeatedly recognized by us. Notwithstanding our adherence to trial court responsibility in the molding of a decree as the wisest practice and the most productive of good results, we have never treated that power as one of discretion, subject only to reversal for gross abuse. Rather we have felt an obligation to intervene in this most significant phase of the case when we concluded there were inappropriate provisions in the decree. In resolving doubts as to the desirability of including provisions designed to restore future freedom of trade, courts should give weight to the fact of conviction as well as the circumstances under which the illegal acts occur. Acts in disregard of law call for repression by sterner measures than where the steps could

reasonably have been thought permissible. We turn then to the Government's proposals for modification of the decree on the assumption that only a violation through concerted industry license agreements has been proven, but recognizing, as is conceded by defendants, that relief, to be effective, must go beyond the narrow limits of the proven violation."

3 19. On appeal by the Government, the Supreme Court also extended its injunction order of May 29, 1950 (339 U. S. 960) to be "continued in effect until the entry of a final decree in the District Court."

3 20. On May 15, 1951, this Court modified its earlier decree in accordance with the opinion of the Supreme Court. There was no appeal therefrom. This is the present Final Decree.

[fol. 1604] 21. The pattern of the Final Decree 13 of ten Articles is as follows: Article I is the jurisdictional declaration; Article II is the definition of terms used in the Decree, these include "Patents" and "Patent Licenses"; Article III declares the defendants have acted in concert to violate Sections 1 and 2 of the Act; Article IV is that "Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void"; Article V contains the injunction pro- 14 visions; Article VI covers non-discriminatory compulsory license agreements from USG to applicants therefor, subject to approval of the District Court; Articles VII and IX are not material here; Article VIII provides for supervision by the Department of Justice to secure compliance with the Decree; Article X is the reservation of jurisdiction for the purposes of construction of, carrying out of, or enforcement of the Decree.

14 22. A condensation of the method or plan of the Decree to remedy the unlawful situation may be stated as follows: by annulling the existing named license agreements; by injunction against acts which would tend to defeat the Decree; by use of new compulsory court supervised license agreements; by Department of Justice supervisory inspections; and by retention of broad

jurisdiction to protect and effectuate the purposes of the Decree.

35-36 23. USG did not purge the misuse of its licensed patents. USG urges five facts which it claims constitute evidence of purge at a time prior to May 15, 1951. These are as follows:

A. That USG did not fix prices, under its licenses, after July 8, 1941. This is true. However, its effect is dissipated by two considerations: first, the notices [fol. 1605] that minimum prices bulletins would be suspended included the statement that such suspension would continue "until we decide again to exercise our right to do so"; and, second, this price fixing provision is inseparably joined with the other provisions found violative of the Act.

36 B. The claimed acquiescence of USG to the repudiation of the illegal agreements by Petitioners following the first appeal (333 U. S.). The record herein does not support the claim that USG "acquiesced" in these cessations of payments by Petitioners. In connection with the form of decree to be entered after summary judgment was granted, USG not only did not claim that the licenses had been rescinded but it urged strongly that only the minimum price fixing provisions were illegal and that, in all other respects, the license agreements should be "cancelled" only as of the date of the decree to be entered. At that time and thereafter, it made clear that it expected to have and waived no rights to have "compensation" for the use of its patents; how-

37 ever, there was no suggestion as to what form enforcement of those rights would take if not voluntarily paid. Not until USG filed its suits against Petitioners was that made clear. Such suits included Counts for recovery under the unlawful agreements. Throughout, there is no basis for this claimed "acquiescence".

37 C. The offer by USG, early in the Spring of 1949 (February or March), of new forms of licenses. Those proffered forms of licenses are not

effective as acts of purge, as to our period, for two [fol. 1606] reasons. First, they were not intended to become effective until the entry of the decree because it was not until that time that the unlawful license agreements were to be "cancelled and terminated" (Article IV, 2 of the form of decree submitted by USG on March 4, 1949). Second, they differed in several respects from the form approved by the Supreme Court (340 U. S. 76).

37 D. USG's decision not to appeal from the decree of November 7, 1949, "unless the Government appealed, in which event it felt it would be required to appeal, in self defense." Neither this unacted upon decision not to appeal nor an appeal by the Government in any way affects this matter of purge. The two appeals (USG and the Government) involved entirely different legal issues and situations. USG appealed from the entry of any decree "on the ground of their right to introduce material evidence" (340 U. S. at p. 82); the Government appealed solely "in an effort to have the provisions of the District Court decree enlarged" (340 U. S. at p. 82).

38 E. The fact that the Supreme Court (339 U. S. 960) enjoined USG, on May 29, 1950, from "enforcing in any manner whatsoever" the price provisions of the license agreements. The USG suits now pending show conclusively, however, that even now it is striving to enforce the royalty provisions of the illegal patent license agreements.

[fol. 1607] 24. In January, February or March,
3 1953, USG filed separate similar actions against four of the other corporate defendants in the Anti-Trust action. These suits were: against the National Gypsum Company, in the Northern District of Iowa; against Certain-Teed Products Corporation, in the same District; against Newark Plaster Company, in the District of New Jersey; and against the Ebsary Gypsum Company, in the Southern District of New York. Each of these suits was based on alternative claims for royalties or for the reasonable value of the use of certain of its patents or for

damages because of infringement. The time period covered by each of these four suits was, roughly,
4 from the first opinion by the Supreme Court (March 8, 1948), to the date of the Final Decree (May 15, 1951), and, as to Newark and Ebsary, up to the filing of the complaint against each of them.

National Petition

Exs. A-D; USG Answer

6-8 25. In these suits USG seeks judgment against
10-11 National for $1,600,000; against Certain-Teed for $650,000; against Ebsary for $245,000; against Newark for $285,000; and interest and costs of the suit against each Petitioner.

National Petition

USG Answer

11 26. USG also asserted claims against the Celotex
8 Corporation and against Kaiser Gypsum Company
11 for the alleged use of its licensed patents for the period from February 1 or March 1, 1948 to May 15, 1951.

15 27. The complaints filed by USG in the various District Courts contain five Counts each in the actions against National and Certain-Teed, and six Counts each in the actions against Ebsary and Newark.

15-16 [fol. 1608] 28. The first two counts of all four complaints are directly based on the license agreements set forth in Article II of the decree of November 7, 1949.

32 29. Count III of the USG complaints is a common law action of *indebitatus assumpsit* based on a pleaded express contract. That contract and the relief sought are so stated and designed to bring about the identical recovery that would be realized had the actions been for recovery upon the royalties provided in the illegal agreements.

32 30. Count IV of the USG complaints is for *quantum meruit* covering the use of the patents.

15, 32 31. Counts V and VI of the USG complaints allege infringement of USG's patents.

34-35 32. The amounts sought in Counts III-V of these suits for the period prior to the Final Decree is precisely the same as the amounts sought as royalties in Counts I and II, which are the amounts provided for and measured by the old unlawful license agreements.

National Petition Exs. A-D

20, 21 33. The patent alleged to be infringed in the USG suits against National Gypsum Company and Certain-Teed Products Corporation is patent Roos No. 2,017,022. The USG suits against Newark Plaster Company and Ebsary Gypsum Company allege in addition infringement of patents Roos Nos. 2,079,338, 2,080,009 and 2,044,401 for the period prior to and after May 15, 1951. All of the foregoing patents were licensed by USG under one or more of the patent licenses defined and enumerated in paragraph 5 of Article II of the Final Decree of May 15, 1951.

21 [fol. 1609] 34. Application for patent No. 2,044,401 was filed by Roos on August 15, 1929 and later assigned to USG, to which the patent was issued on June 16, 1936. This patent related to the use of dextrinized starch in gypsum board core composition and

22 method of manufacturing same. This patent was an improvement patent and, as such, was included as paragraph 18 of the licenses to Newark and Ebsary. (See transcript in the Supreme Court, October Term, 1947, No. 13, pp. 4416 and 4488).

22 35. Seasonably after entry of the Final Decree, National and Certain-Teed applied for and received licenses thereunder. Newark and Ebsary have never applied therefor. In the USG complaints against Newark and Ebsary, it seeks recovery (Counts I-II) for license royalties on patents covered by the old licenses—that recovery included only the period ending with the Final Decree. Each of the succeeding Counts sought recovery "to the date of filing this complaint."

22 36. Neither Newark nor Ebsary have filed answer in the USG suits. The Court was informed in this

presentation that such answers would include a denial of use of these USG patents during the period subsequent to May 15, 1951. Such defenses would pose the direct issue of infringement *vel non* since the Final Decree.

4 [fol. 1610] 37. The defendant in each of the four suits filed by USG, hereinabove described, has filed in this Court and as a proceeding in this case (Civil Action No. 8017) its separate petition to enjoin the USG suit against it and for associated relief. Very broadly stated, these petitions are based on claimed protection of the Final Decree in the Anti-Trust case, on misuse of patents, and on prevention of a multiplicity of actions. Stay orders have been entered in the two Iowa District cases to await action here.

4 38. The United States has filed a petition to enjoin USG from asserting any claim or suit "in whole or in part on any of the license agreements adjudged illegal, null and void by the final decree of this Court entered on May 15, 1951, or on any provision thereof." As to any claims based on such license agreements, the United States alleges that such "are barred by, and constitute an attempt to defeat, said decree." As to any "alternative claims" set forth in such four suits, the United States "takes no position" as to whether or not they are barred by the Final Decree.

[fol. 1611] PROPOSED CONCLUSIONS OF LAW BY NATIONAL GYPSUM COMPANY AND CERTAIN-TEED PRODUCTS CORPORATION.

Jurisdiction

9-10 1. Defendant petitioners are parties to the original Anti-Trust suit asserting rights under the Final
6-9 Decree. Where a decree specifically or by fair implication accords rights to parties thereto, the parties have a standing to enforce such rights in a manner consonant with the underlying purposes of the decree. Petitioners have standing to apply to this Court for enforcement, construction or the carrying out of the Final Decree.

9-10 2. This Court has jurisdiction to entertain and determine the issues presented by Petitioners be-

cause such jurisdiction is expressly r served by Article X of the Final Decree.

10 3. In addition to such expressly reserved jurisdiction, this Court has jurisdiction to entertain and determine the issues presented by Petitioners based on the inherent power of a court of equity to compel obedience to its decrees. Where it is seriously contended, as here, that the suits brought by USG do violate the Final Decree, this Court has jurisdiction to determine whether such violation exists; and, if it does exist, how it may be cured.

10 4. This Court has jurisdiction to entertain and determine the issues presented by Petitioners based on its jurisdiction to implement the Final Decree to effectuate its basic purposes. One method of seeking such implementation is by petition in the original action.

11 5. This Court has jurisdiction to entertain and determine the issues presented by Petitioners based [fol. 1612] on the long-established discretionary jurisdiction of an equity court to prevent multiplicity of actions. Such jurisdiction is present here because of the four present suits by USG and also the claims against Celotex and Kaiser. The matter of possible misconstruction or diversity of construction of the Final Decree is a reason for taking jurisdiction where there is a claimed
35 multiplicity of actions, each involving the meaning and application of the Decree and affecting the complete effectiveness of the Decree.

10 6. It is not controlling as to the existence of jurisdiction that Petitioners might urge the Final Decree as a defense in the USG suits. That fact does not affect the existence of jurisdiction in this Court. It is relevant merely on the question whether this Court, in its discretion, should exercise such jurisdiction instead of leaving the issues to be determined in the USG suits.

Scope of Article IV

16 7. Article IV of the decree of November 7, 1949 nullified completely the license agreements listed in Article II. This nullification did not create a status.

It simply declared a status which had existed since the granting of the patent licenses. Article IV passed into the Final Decree unchanged. Accordingly USG should be enjoined from further prosecuting the first two Counts in each of the four suits brought by it against the Petitioners, since these Counts clearly violate the express provisions of Article IV.

[fol. 1613] Modification

8. The purpose and permissible function of an
23 order for modification of an anti-trust decree is to cover something within the broad purposes of the decree but which, for some proper reason, was not included in the existing decree. Almost always such modifications are concerned with remedies. Usually they concern situations which were either overlooked at the time the decree was entered or which have arisen or developed after the decree.

23 9. The power to make any proper modification of the Final Decree is expressly reserved in Article X of the Decree. Article X performed the function of expressly reserving jurisdiction to take further action if experience thereafter should make such necessary or advisable fully to effectuate the purposes of destroying the monopoly and the conspiracy and denying the
27, 11 fruits thereof. The Court has power to make any modification which will, "so far as practicable, cure the ill effects of the illegal conducts . . ." (340 U. S. at pp. 88-89)

24 10. In addition to such expressly reserved power, this Court as a court of equity has inherent power to modify its decrees so as to make them fully effective.

34-38 11. The course of conduct of USG, as clearly shown by the proceedings of record in the Anti-Trust case, establish that USG did not purge itself of its patent misuse at any time prior to May 15, 1951. The five acts claimed by USG to constitute acts of purge prior to May 15, 1951 do not constitute purge.

34, 35, [fol. 1614] 12. In view of the misuse by USG of

its patents as a matter of law on the facts here, which has not been purged, all claims of USG are barred, and USG should be enjoined from further prosecution of all Counts of these actions.

13. The course of conduct of USG, as clearly shown by the proceedings of record in the Anti-Trust case and in the suits by USG, must be construed as meaning that USG has continued after May 15, 1951 to misuse its patents by seeking recovery, directly and indirectly, on the illegal license agreements up to this time. The attempt by USG to enforce the royalty provisions of the illegal patent license agreements is clear misuse of its patents; such misuse yet continues; and to allow prosecution of these suits, would weaken the effectiveness of the Final Decree.

14. Count III of the USG petitions, for *indebitatus assumpsit*, is but a left-handed, indirect method for recovering the royalties provided in the illegal license agreements. The Decree should be modified to enjoin prosecution of Count III of the USG petitions.

15. Count IV of the USG petitions, the *quantum meruit* Counts, are enjoined on the basis of preventing recovery in a multiplicity of suits wherein the misuse of the patents which were involved in this Anti-Trust suit is shown, as a matter of law, to exist and not have been purged.

16. Both because of the practical and legal situation in this case, and, also, the teaching in the *Hartford-Empire* case, the Final Decree should be modified to cover prohibition from prosecuting the USG suits insofar as they are based on patent infringement during the period covered by those suits.

[fol. 1615] PROPOSED DECREE BY NATIONAL GYPSUM COMPANY AND CERTAIN-TEED PRODUCTS CORPORATION

Petitions having been filed in this court by defendants National Gypsum Company, Certain-Teed Products Corporation, Newark Plaster Company, and Ebsary Gypsum

Company, Inc., on March 25, April 22, May 13, and June 3, 1953 respectively, for orders modifications or directions for the enforcement, construction, or carrying out of the Final Decree of May 15, 1951, and

Plaintiff United States of America, having filed on June 30, 1953 its petition for order or directions for the construction, carrying out or enforcement of the Final Decree of May 15, 1951, and

Defendant United States Gypsum Company, having filed on September 8, 1953 separate answers to each of the above petitions, and

The Court, having read and considered said petitions ans answers, and having heard the oral arguments of Counsel for all of the above parties on January 12 and [fol. 1616] 13, 1954, and having read and considered the briefs filed by them, and having rendered its majority and dissenting opinions on July 6, 1954,

IT IS THEREFORE ORDERED, ADJUDGED AND DECREED:

1. This Court has jurisdiction of the subject-matter of said petitions and of the parties hereto.

2. The Final Decree of this Court of May 15, 1951 is hereby modified by adding to Articles II, V and VI the following:

II.

* * * * * * *

6. "Misused patents" shall mean United States Letters Patent and applications for United States Letters Patent licensed by the defendant United States Gypsum Company under the patent licenses defined and enumerated in paragraph 5 of this Article.

V.

A. * * * * * * *

B. Defendant United States Gypsum Company is hereby ordered and directed to discontinue and dismiss, with prejudice to United States Gypsum Company, its pending actions against National Gypsum Company and Certain-

Teed Products Corporation in the United States District Court for the Northern District of Iowa; against Newark Plaster Company in the United States District Court for the District of New Jersey; and against Ebsary Gypsum Company in the United States District Court for the Southern District of New York.

C. Defendant United States Gypsum Company is hereby enjoined and restrained from instituting or threatening to institute, maintaining or continuing any action against any person, firm or corporation for payment for use of its misused patents alleged to have occurred prior to May 15, 1951.

[fol. 1617] IX. * * * * * * *

Costs arising out of the proceedings instituted by petitioners shall be assessed against United States Gypsum Company.

Dated:

Kimbrough Stone, J., Eugene Worley, J.

[fol. 1618] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title Omitted]

Memorandum of Newark and Ebsary adopting National's proposed Findings, etc.—Filed August 16, 1954.

Defendant petitioners, Newark Plaster Company and Ebsary Gypsum Co. hereby adopt and join in the proposed Findings of Fact, Conclusions of Law and Decree submitted by National Gypsum Company pursuant to the opinion of the Court herein filed July 6, 1954.

Dated: August 12, 1954.

DEWITT, PEPPER & HOWELL, Attorneys for Newark Plaster Company, 120 Broadway, New York 5, New York.

JOSEPH S. RIPPEY, Attorney for Ebsary Gypsum Company, Inc., 612 Powers Building, Rochester 14, New York.

[fol. 1619] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title Omitted]

United States Gypsum Company's Objections and Suggestions With Respect to Petitioner's Proposed Findings of Fact, Conclusions of Law, and Decree—Filed September 17, 1954.

This memorandum is submitted on behalf of United States Gypsum Company in opposition to the findings of fact, conclusions of law and decree proposed by National Gypsum Company and Certain-teed Products Corporation under date of August 16, 1954, and adopted and joined in by Newark Plaster Company and Ebsary Gypsum Company, Inc.

It states U. S. Gypsum's objections and suggestions in two parts: Part I presents basic errors inherent in [fol. 1620] the proposed findings, conclusions and decree because they incorporate findings and conclusions from the majority opinion * which are erroneous and which should therefore be given further consideration by the court. Part II deals with specific detailed objections and suggestions regarding the proposed findings of fact, conclusions of law and decree.

Part I.

U. S. Gypsum respectfully submits that there are certain fundamental errors in the opinion which if incorporated in any findings of fact, conclusions of law, or decree, would constitute reversible error. It believes that these matters should be called to the court's attention before its decision has been formalized by the entry of any findings, conclusions or modifications of the decree.

---

* Unless specifically shown otherwise, all references hereinafter made to the opinion of this court will be to the majority opinion filed on July 6, 1954.

(1) The Opinion Erroneously Holds That in Seeking Compensation for the Use of Its Patents, U. S. Gypsum Has, as a Matter of Law, Continued to Misuse Them Up to This Time.

A basic error in the opinion of July 6, 1954, lies in its conclusion (pp. 34, 35, 38) that a continuing unpurged misuse of U. S. Gypsum's patents exists as a matter of law, because it seeks compensation from its co-conspirators for their use of its patents.

This conclusion could not be based on any evidence as to the factual situation existing during the 1948-1951 period here involved, or for many years prior thereto. Not only did the evidence in the original antitrust proceeding [fol. 1621] stop with the year 1941, but no evidence has been received by this court on the issues as to patent misuse and purge raised by the 1953 petitions and U. S. Gypsum's answers thereto.

Nor can this conclusion be based upon any claim that U. S. Gypsum is now using its patents to fix, maintain or stabilize prices, or to monopolize trade and commerce in the gypsum industry, by license agreements or by other acts or courses of action, or is attempting to enforce the price limitation provisions of the old patent license agreements. In fact, there is not an iota of evidence that U. S. Gypsum relied upon or attempted to enforce any of those price limitation provisions since 1941. Moreover, during a substantial part of the 1948-1951 period here involved, all of the defendants, including U. S. Gypsum and the petitioners, were effectively restrained by injunctive orders of this court and of the United States Supreme Court against any misuse of patents by operation under the price limitation provisions of the old license agreements. No suggestion has been made that any of the injunctive provisions of the decrees of this court, or of the Supreme Court's order, has been violated in any manner.

Rather, this court has taken the erroneous position that because U. S. Gypsum has brought suits in 1953 to recover money for the actual use of its patents, for which compensation has not heretofore been paid, such a money action in some way constitutes a continued misuse of its

patents. This determination apparently rests upon the facts, *first,* that these suits included two counts (*i. e.* Counts I and II) seeking to recover royalty under the illegal license agreements, and *secondly,* that the other alternate and inconsistent counts in these suits sought compensation in a like amount as that claimed under Counts I and II. This erroneous determination is not supported by any precedent and is violative of a number of well established legal principles.

[fol. 1622] (a) *The authorities.* Needless to say, the court cites no authority for its continued misuse ruling. We know of no other case wherein it has been held that the mere bringing of a suit to recover money alleged to be due under an unlawful license agreement, and in the alternative compensation for use of patents, without more constitutes, as a matter of law, misuse of a patent. It is an entirely novel proposition in support of which no authority could be cited. Actually, the only decision we are aware of is to the contrary. In *Park-In Theatres, Inc.* v. *Paramount-Richards Theatres, Inc. et al.* (D. C. D. Del. 1950), 90 F. Supp. 730 (Aff'd. 185 F. 2d 407; cert. den. 341 U. S. 950), the complaint alleged two causes of action; one for an accounting for royalties on a license agreement, and a second, in the alternative, for infringement. The court rejected defendant's motion for summary judgment on the infringement count even though it found that the existence of the license, the basis of the first count, constituted misuse. The court held that the issue of purge involved questions of fact which precluded granting summary judgment. It did not consider that the mere inclusion of a count on the license was misuse as a matter of law.

(b) *The patent law codification.* The continued misuse ruling conflicts with the proposition that a suit to enforce a patent right is not *per se* against public policy, which is now conclusively established by the new codification *

---

* This codification went into effect on January 1, 1953. The U. S. Gypsum suits were filed thereafter.

of the patent laws providing (Title 35 U. S. Code, Sec. 271 (d)):

> "No patent owner otherwise entitled to relief for infringement * * * shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: * * * (3) sought to enforce his patent rights against infringement or contributory infringement."

[fol. 1623] A patentee's right to grant a license (immunity from suit for infringement) and receive compensation therefor is clearly an enforcible right within the meaning of the new codification. Since it is the declared public policy that the mere bringing of a patent infringement suit is not misuse, then *a fortiori* a suit on a license agreement (such as Counts I and II) solely for the recovery of money does not in itself constitute misuse.

(c) *The final decree and other orders.* The continued misuse ruling is inconsistent with the final decree in this case. If that decree established anything as regards rights between the various defendants, it was that although the petitioners should have the right to continued use of U. S. Gypsum's board patents, U. S. Gypsum was entitled to a reasonable compensation for such continued use.

U. S. Gypsum's suits have not relied upon or attempted to enforce any of the price limitation provisions of the condemned license agreements, which were the heart of the adjudication of their illegality. Obviously, there is no concerted action of co-conspirators involved in the bringing of the suits. All that U. S. Gypsum seeks is fair compensation for the use of its patents, which is not only entirely consistent with the provisions of the final decree, but also with the comparable provisions of the November 7, 1949 decree, and with the injunctive provisions of the Supreme Court order of May 29, 1950, enjoining *only the price limitation provisions* and not the old license agree-

ments in their entirety, as the opinion erroneously states a number of times.*

[fol. 1624] U. S. Gypsum's suits, being simple suits to recover money for the actual use of its patents, could not possibly be said to constitute patent misuse. Even if Counts I and II be held to conflict with Article IV, as this court concluded, there is no basis for holding that such a violation, involving as it did only an attempt to collect money for the actual use of the patents, constituted patent misuse such as would prevent recovery of compensation upon alternative and inconsistent statements of claim. To so hold, is to inject a principle without benefit of any evidence inconsistent with the court's prior determination that U. S. Gypsum was entitled to be compensated for the continued use of its patents by the petitioners.

(d) *Federal Rules of Civil Procedure.* The continued misuse ruling violates the rules of modern pleading and penalizes U. S. Gypsum for following the Federal Rules of Civil Procedure, Rule 8(e)(2) of which provides:

> "A party may set forth two or more statements of a claim or defense alternately or hypothetically, either

---

* The opinion says on page 16 that Article IV of the November 7, 1949 decree nullified completely the old license agreements and that the Supreme Court order of May 29, 1950, made Article IV effective *pendente lite* "by enjoining any continued performance thereunder"; on page 20, that the Supreme Court dismissed the defendants' appeal, affirmed Article III and "entered an injunction against 'enforcing in any manner whatsoever' the license agreements"; on page 29, that this injunction "expressly forbade defendants from 'enforcing in any manner whatsoever' the existing license agreements and this status was thereafter continued up to the final decree"; and on page 34 that it "enjoined defendants 'from enforcing in any manner whatsoever the provisions of their current license agreements * * *'. This order * * * was continued in force until the Final Decree." A careful reading of the order (Op. pp. 2-3) will establish this misunderstanding, which obviously influenced the decision.

> in one count or defense or in separate counts or defenses. When two or more statements are made in the alternative and one of them if made independently would be sufficient, the pleading is not made insufficient by the insufficiency of one or more of the alternative statements. A party may also state as many separate claims or defenses as he has regardless of consistency and whether based on legal or on equitable grounds or on both. * * *"

When U. S. Gypsum's complaints against National, Certain-teed, Ebsary and Newark were being drafted, U. S. Gypsum was faced with the very real problem, in view of the unique factual situation, of stating proper theories of action upon which recovery for the use of its [fol. 1625] patents, with or without permission, could be had. If the facts to be subsequently proved, and the law applicable thereto, showed that the defendant had used those patents without license, U. S. Gypsum could recover on its infringement count. If the defendant had a license, then there could be no recovery for infringement, but only on counts based upon such licenses as might be proven to exist. But there was a further question as to what licenses or kind of licenses, if any, might be found in fact and in law to exist, upon which the defendant might rely. It was possible that a defendant might defend by pleading it was licensed during the period in question under the old license agreements declared illegal in the final decree, as National actually did in its Eighth Defense to the infringement count in the Iowa suit. In anticipation of such a defense, U. S. Gypsum felt compelled to include Counts I and II lest the court rule that it failed to plead a proper basis for its claim (6/9/53 Hearing, Tr. 24-25; USG's Br. pp. 86, 99). It was a proper and necessary precautionary measure, authorized by the Federal Rules of Civil Procedure. No authority or precedent has ever suggested that such caution in pleading could possibly constitute evidence of continued misuse of a patent, as a matter of law, particularly when the various counts only assert money claims for royalties or compensation for the actual use of the plaintiff's patents.

Apparently misunderstanding U. S. Gypsum's position, the opinion states (p. 16):

> "• • • We are not impressed by the contention of USG that these two Counts are necessary or useful to meet possible factual situations which might arise in the trials of these suits. Those Counts state definitely grounds for claimed relief and must be so regarded. • • •"

Of course, they state grounds for claimed relief, and were so intended. All U. S. Gypsum has attempted to do in [fol. 1626] its new pending suits is to recover a reasonable royalty or compensation for the use of its patents, with or without its permission, upon whatever theory the trial court might determine to be appropriate. If Counts I and II were held to be without merit, the worst consequence should be the dismissal of those counts. In holding that U. S. Gypsum thereby forfeited its right to recover for the use of its patents, this court has severely penalized it for pleading alternate and inconsistent claims in accordance with the Federal Rules of Civil Procedure. Such a penalty is unfair and unnecessary. It has no justification in a court of equity.

(e) *The quantum meruit and infringement counts.* The continued misuse ruling shows further misunderstanding of the facts and the law in seeming to attach the stigma of misuse of patents to the counts other than Counts I and II (p. 35). Thus, it erroneously states that the other counts are "posed on the same underlying factual situation created by the license agreements", and it treats the similarity in the *ad damnum* as significant (pp. 32, 34-35). It even attaches significance to the prayer for damages in the infringement count, where statutory language was used.

There is no basis for the statement that all of the counts were posed on the same underlying factual situation; actually, they were based upon inconsistent theories and factual situations. In attaching significance to the similarity of the *ad damnum* clauses, the opinion overlooks the well accepted principle of patent law, that where parties, as in this case, have established a rate of royalty for the

use of a patent in arm's length negotiations, not only prior to the period involved but also subsequently thereto (as was done here by National and Certain-teed in the licenses taken after the May 15, 1951 decree), that royalty rate serves to establish the reasonable compensation for the [fol. 1627] use of the patent, and the patentee cannot expect to be able to recover more (See USG Br. pp. 81-83). Moreover, the opinion fails to appreciate that the quantity of board on which compensation for use of the patent would be collectible was bound to be the same in each count, for U. S. Gypsum was only suing for the *actual use* of its patents and only attempting to recover compensation on gypsum board actually embodying the claims of its patents or made by the use of such patents. It did not seek recovery (even in Counts I and II) of the royalty provided for in the old license agreements, *i. e.*, 1% of the selling price of all board for the privilege of using the patents, whether or not they were used. If the patents were used at all, the damages in each count were bound to be the same. There is no merit in the conclusion that the similarity in the *ad damnum* evidences an attempt to recover indirectly, on counts other than Counts I and II, the royalty provided for in the old license agreements.

(f) *The Newark and Ebsary suits.* The ruling of continued misuse presents an intolerable situation in the confusion which it has caused as to the status of the Newark and Ebsary cases. The opinion states that in the complaints against Newark and Ebsary U. S. Gypsum seeks recovery "to the date of the filing of this complaint" in the case of all counts other than Counts I and II (p. 22). It then concludes that the issue of infringment *vel non* since the decree of May 15, 1951, which apparently will be joined in the New York and New Jersey district courts, should not be interfered with, stating further that there is no room for the application of the multiplicity of actions rule since each case must depend upon its own set of facts and that such limited issues do not affect the final decree in any respect (p. 22). This green light to the Newark and Ebsary suits in so far as they involve the period subsequent to May 15, 1951, becomes confused, however, by the [fol. 1628] ruling that in bringing these suits U. S. Gyp-

sum has continued to misuse its patents "up to this time" (pp. 35-38). If U. S. Gypsum is still misusing its patents, it would seem to afford an adequate defense to Newark and Ebsary for having infringed its patents. Thus, Newark and Ebsary are now given the blessing of this court for their defiance of the compulsory licensing provisions of the May 15, 1951 decree, and their disregard of U. S. Gypsum's property rights. This is a wholly improper result which follows the equally improper ruling that U. S. Gypsum is still misusing its patents, as a matter of law, by reason of the suits it has brought to recover compensation for the use of those patents.

If the continued-misuse-as-a-matter-of-law ruling is wrong, then the error should be corrected at this time and by this court, with the result that automatically U. S. Gypsum's right to proceed on Count IV (seeking *quantum meruit* recovery) should be restablished, for the opinion holds (pp. 32-33) that Count IV "is proper and prosecution thereof should not be enjoined unless USG is barred by unpurged misuse of its patents".

In fact, such a correction should also have the effect of automatically reestablishing Count III, on the theory of that count as stated to the court by U. S. Gypsum, *i. e.*, that it sought a *quantum meruit* recovery for the actual use of U. S. Gypsum's patents under circumstances from which the law would imply an agreement to pay (6/9/53 Hearing, Tr. 25; 1/13/54 Hearing, Tr. 142; USG Br. p. 85). Even on the construction placed on Count III by the opinion, *i. e.*, as a suit upon an express contract which should be enjoined as a left-handed way of recovering on the old license contracts (p. 32), Count III should be reinstated. For the opinion overlooks the fact that Count III expressly avers a rescission of the old license contracts [fol. 1629] and seeks recovery for use of the patents after such rescission, and therefore for a period not covered in any way by the old license agreements.

(2) The Opinion Erroneously Concludes, Without the Taking of Any Evidence, That U. S. Gypsum Has Not Purged Its Patent Misuse, by Holding That as a Matter of Law Certain Facts of Record Do Not Show Purge.

A second basic error in the opinion lies in the conclusion (p. 34) that the earlier misuse of U. S. Gypsum's patents as a matter of law has not been purged. This conclusion is reached despite the fact that the opinion would deny U. S. Gypsum any opportunity of presenting evidence of a purging of the misconduct with which it is charged, and apparently results from the court's misconstruction of U. S. Gypsum's contentions regarding certain evidence of purge already in the record.

(a) *Denial of right to be heard.* The question of purging of patent misuse necessarily involves a factual inquiry into the circumstances of the particular case and cannot be decided as a matter of law until all of the pertinent facts are known (USG Br. pp. 131-134). The opinion has erroneously overlooked this established principle. It also fails to recognize the fact that the record before it was compiled over twelve years ago and that all issues which have been previously decided in this case were based upon facts which existed when the Government's complaint was filed in August 1940.

Admittedly, no issue of purging was ever presented to this court prior to the filing of the petitions and answers thereto in 1953, and no evidence on such an issue has ever been presented, despite the fact that issues with respect thereto were squarely raised by the 1953 petitions and the answers.

[fol. 1630] In addition to the record facts bearing on the question of purge, there are a number of other factual issues raised by the 1953 petitions and the answers thereto on which U. S. Gypsum has never had its day in court. The opinion would effectively preclude U. S. Gypsum from ever showing, for example, that in fact not only a decade of time but also an intervening war had caused the effects of any earlier patent misuse to have been wholly dissipated prior to May 15, 1951. It would pre-

clude U. S. Gypsum from ever offering its evidence to prove that shortly after the first Supreme Court decision in March 1948, when the co-conspirator licensees repudiated their licenses, it acquiesced in that repudiation —evidence compelling the conclusion that the offending license agreements were cancelled by mutual consent at that time, clearly establishing purge.

It is unfair and inequitable now to deprive U. S. Gypsum of its day in court by undertaking to determine the purge issue, a factual determination, without a full consideration of all pertinent evidence. U. S. Gypsum's answers to the petitions have raised material issues of fact which cannot be resolved against it as a matter of law without such a factual inquiry. That the presence of such factual issues calls for evidence and not a summary judgment is well established by the authorities (See USG Br. pp. 131-134).

(b) *Misconstruction of purge contentions.* Understanding that factual issues, including that of purge, would be subsequently proved after preliminary legal questions had been decided (see 6/9/53 Hearing, Tr. 6, 8, 9, 29-31; see also, Nat'l Br. pp. 67-68), U. S. Gypsum nevertheless contended in its brief (Br. pp. 134-140) that there were certain facts already of record which constituted evidence of purge at a time prior to May 15, 1951, sufficient not only to preclude a conclusion against it, as a matter of law, but even to resolve the purge issue in its favor. It discussed five such facts of record with the express reser- [fol. 1631] vation that they were "only illustrative and not the only or exclusive facts showing purge." The purpose of U. S. Gypsum's reservation in its brief was to make it clear that reference was made only to matters already of record and not to other factual issues of purge raised by the 1953 petitions and answers thereto (See USG Br. p. 134). It was certainly not its intention then to submit those five points as the only evidence that would be submitted on an actual trial of that particular issue, which had not heretofore been before the court, in the event the court determined that it had and should exercise jurisdiction. But the treatment of these five

facts in the opinion has brought about a wholly erroneous and inequitable result.

(1) In the first place, the opinion completely misses the point of one fact of purge relied on as a reason why this court could not conclude the issue of purge against U. S. Gypsum, as a matter of law, and why it should rule in its favor, *i. e.*, that on November 7, 1949, this court's decree was entered adjudicating the old license to be illegal, null and void, and enjoining their performance or enforcement (USG Br. p. 135). The effect of this fact is readily apparent from the opinion's statement in another connection (p. 16) that "Article IV of that decree [of November 7, 1949] nullified completely the license agreements listed in Article II." It was the effect of the decree itself, and not the incidental fact that U. S. Gypsum had decided not to appeal from the decree, that was relied upon by U. S. Gypsum. The opinion's reference to the incidental fact of U. S. Gypsum's decision not to appeal overlooks the facts that *first*, it was claimed (Cert. Br. p. 53) that the November 7, 1949 decree did not constitute a purge because U. S. Gypsum appealed from it, and *second*, it was only to meet such a contention that the argument, erroneously referred to by the court as the fourth fact, was made.

[fol. 1632] (2) One of the important acts of purging shown of record was U. S. Gypsum's repeated offers of new licenses to the various defendants in 1949. These new licenses were untainted with any improper provisions in so far as the matter of patent misuse is concerned. The 1949 decree approved a form of license which for all intents and purposes is the same as that which U. S. Gypsum's licensees were offered in 1949 and which National and Certain-teed accepted for the period after May 15, 1951. Moreover, the form of license approved by the 1949 decree differed from that approved by the final decree only in respect of requirements in the latter: (1) that licensees' reports need not show any breakdown with respect to thickness and size of board; and (2) that verification of licensees' reports be made by an independent auditor or a person acceptable to both parties who should report only the amount of royalty due.

Can it be that such incidental changes made in the licenses can give rise to a plain legal implication that these changes were necessary in order to block effectually continued misuse by U. S. Gypsum of its patents? Definitely not, and the Supreme Court's decision (340 U. S. 76, 94-95) demonstrates that the provisions were not of such a character. Price fixing and all other objectionable features being removed, the proffered licenses were innocuous and legal in every respect.

In rejecting U. S. Gypsum's offer of new licenses as evidence of purge, because they differed slightly from the form approved in the final decree, the opinion states that the Supreme Court had found the definition of gypsum board* and also the time limit of applying for new licenses too restricted (p. 37). That criticism of the compulsory licensing provisions of the November 7, 1949 decree, of [fol. 1633] course, had nothing whatsoever to do with the purging effect of U. S. Gypsum's earlier offer to replace all of its outstanding licenses with new licenses from which the objectionable clauses had been deleted.

The opinion states that the proffered licenses were not intended to become effective until the entry of the decree, since it was not until then that the old agreements were to be cancelled and terminated. U. S. Gypsum's offer of new licenses was not so limited, as appears from the proffered forms of license agreements filed with the court (see also 6/14/49 hearing, Tr. 8257-60). The proposed decretal provision cancelling the old license agreements was merely designed to dispose of, once and for all, any vestige of those agreements which had been replaced with new licenses. It cannot factually be given the fallacious significance attached to it by the opinion. In any event, the old license agreements were "nullified completely" by the November 7, 1949 decree (Op. p. 16).

(3) The opinion clearly erred in disposing of the contention that the abandonment of the old license agreements demonstrated purge. It finds (pp. 28, 30) that the licensees abandoned the license agreements following the first

---

* U. S. Gypsum agreed with this view (340 U. S. 76, 90), so there was no issue as to that point.

Supreme Court decision on March 8, 1948. But it disposes of the averment set up in Count III of the pending suits that U. S. Gypsum "acquiesced" in that abandonment, by determining the issue without the benefit of evidence (p. 36). As this was a factual issue, not only in the Iowa suits but also before this court, it should not have been adjudicated without affording U. S. Gypsum the opportunity to prove its averment.*

(4) The opinion's rejection of the Supreme Court injunctive order of May 29, 1950, as showing purge, is [fol. 1634] premised upon its erroneous conclusion that U. S. Gypsum is still misusing its patents by the mere bringing of the suits to recover money for their use (pp. 37-38), a wholly novel and unsupportable doctrine. A further fallacious conclusion is contained in footnote 18 of the opinion, stating that it is not material to the issue of purge that the injunction went beyond price fixing and extended to arranging the terms and conditions of sale of gypsum board. This injunction (which on the remand on the Government's appeal was "continued in effect until the entry of the final decree" Op. p. 3) operated as a bar to further misuse of U. S. Gypsum's patents *pendente lite* and, unless it was violated (which is not here questioned), is certainly evidence of purge as of that date.

(5) Finally, the court shows a misunderstanding of U. S. Gypsum's contention regarding the non-use of the price limitation provisions of the old licenses since 1941. Certainly such non-use is evidence of purge, and is particularly material on the dissipation of the illegal effects of the patent misuse.

The opinion's rejection of the purge facts of record is further erroneous in ignoring their cumulative effect. It is shocking that a court of equity would permit co-conspirators free use of U. S. Gypsum's patents, despite

---

* Counsel's statement referred to in fn. 17 (p. 36) does not furnish a sound basis for conclusively determining the "acquiescence" issue against U. S. Gypsum; nor could that issue be concluded by the fact that in 1949 all parties were suggesting a final disposition of the old license agreements by providing for their cancellation in the decree.

U. S. Gypsum's ten years non-use of price limitation provisions of the old licenses, the abandonment of those agreements by the parties, U. S. Gypsum's repeated offer of new licenses, and the injunction of this court and of the Supreme Court against misuse of the patents during much of the pertinent period. Assuming, *arguendo* that these facts do not establish purge, as the opinion concludes, they are certainly sufficient, when taken with the other facts put in issue by the 1953 petitions and answers thereto, to prevent a summary judgment of non-purge.

This is made amply clear by the final decree itself, the [fol. 1635] entry of which was not the first fact that dissipated the effects of patent misuse. If such misuse had not already ceased and its ill effects been dissipated, then the decree would have contained, as did the *National Lead* decree, for example, provisions enjoining U. S. Gypsum from enforcing its patents prior to the final decree. Despite the Government's second appeal solely for the purpose of enlarging the decretal remedies, the Government included no request for an injunction against enforcement of patent rights.

Here again, if the opinion is wrong in concluding, without the taking of evidence, that U. S. Gypsum has not purged its patent misuse, then the error should be corrected by this court, with the result that U. S. Gypsum's right to proceed on Counts III and IV should be reestablished (*supra*, pp. 10-11). The opinion holds (p. 33) in speaking of Count IV, that seeking a *quantum meruit* recovery "is proper and prosecution thereof should not be enjoined unless USG is barred by unpurged misuse of its patents."

(3) There Is Fundamental Error in the Decision to Ignore the Position of the Government, Expand the Decree Beyond Its Basic Purpose, and Create New "Rights" in the Co-Conspirator Licensees.

Neither the petitioners nor the court can point to any provision of the final decree, other than Article IV, as furnishing any basis for the claim that the suits brought

by U. S. Gypsum were violative of the provisions of that decree. None of the injunctive provisions in any way prohibited U. S. Gypsum from recovering for the use of its patents, and the compulsory licensing provisions assured it a reasonable compensation for such use (Articles [fol. 1636] V and VI). The opinion concedes that Article IV does not, either expressly or by fair implication, cover the counts in U. S. Gypsum's pending suits other than Counts I and II, and that if the other counts are to be enjoined it must be by modification of the decree (Op. p. 25).

Although recognizing unequivocally that any modification of the decree must be within the basic purpose of the decree as originally entered (p. 25), the opinion violates this principle by ignoring the Government's position and approving amendments establishing new "rights" in the co-conspirators National, Certain-teed, Ebsary and Newark.

(a) *The basic purpose of the final decree.** The original proceeding was brought by the Government charging an antitrust violation by reason of the defendants' activities in the manufacture and sale of gypsum products, carried out in part under the guise of patent license agreements entered into by U. S. Gypsum, as licensor, and by National, Certain-teed, Ebsary, Newark and others, as licensees (1947 R. 1, 10-11). That litigation resulted in an adjudication that the defendant companies had acted in concert in restraint of trade and commerce to fix, maintain and control the prices of gypsum board, and had monopolized trade and commerce in the gypsum board industry in violation of Sections 1 and 2 of the Sherman Act. This adjudication, contained in Article III, is as the opinion states, "the heart of the final decree" (p. 27).

The basic purpose of the decree, then, was to give the Government adequate relief to prevent agreements or understandings in the future resulting in Sherman Act violations through license agreements or other acts or courses of action (see Arts. IV, V and VI of the decree; USG Br. Appen. vi-x). No suggestion has been made that

---

* For a more complete statement of the basic purpose of the decree, reference is made to USG Br. pp. 56-61.

[fol. 1637] the provisions of the decree have in any way failed to accomplish that purpose, and the Government, the sole spokesman for the public interest (*Buckeye Coal & Railway Co., et al.* v. *Hocking Valley Railway Co., et al.*, 269 U. S. 42; Judge Cole's dissenting opinion, p. 1), and the only party plaintiff in this case, has clearly stated its position with respect to the claims of the defendant petitioners for modification. The Government states that the purport of Article IV, in declaring the old license agreements illegal, null and void, was to bar enforcement of any claim based on those agreements and that U. S. Gypsum should be enjoined from prosecuting Counts I and II of its pending suits. But, the Government expressly states that it takes no position as to whether U. S. Gypsum's alternative claims for recovery on a *quantum meruit* basis, or for infringement, are barred by the final decree or as to whether this court should enter an order enjoining prosecution of such alternative claims. The Government, which brought the suit, and alone represents the public interest, is apparently satisfied that the case should not be encumbered with extraneous issues of a private nature,* and that to modify the decree to enjoin the determination of those issues in the courts wherein they are pending is to expand the decree beyond its original purpose. In other words, if the Government believed that a modification of the decree to enjoin prosecution of the *quantum meruit* and infringement counts were necessary to carry out the basic purpose of the decree, it would certainly have taken that position before this court.

The opinion nevertheless approves a modification of the decree to include an extraneous matter which it concedes was not dealt with at the time the decree was entered (p. 25). This is done to assure the co-conspirator licensees the "right" to avoid payment for their actual use [fol. 1638] of U. S. Gypsum's patents, notwithstanding the fact that the final decree adopted their proposals that they should have the continued use of such patents, *but upon*

---

* *U. S.* v. *Columbia Gas & Electric Corp.*, 27 F. Supp. 116 (D. C. Del. 1939).

payment of a reasonable royalty therefor (USG Br., p. 15, fn. 12).

(b) *Rights of defendants inter se.* Not only does this modification go beyond the basic purpose of the decree, but it also violates the well established principle that the rendition of a judgment in an action does not conclude parties to the action, who are not adversaries under the pleadings, as to their rights *inter se*, upon matters which they did not litigate or have an opportunity to litigate between themselves; in other words, a judgment in favor of a plaintiff against two or more defendants is not conclusive of the rights and liabilities of the defendants *inter se*, except as to matters expressly put in issue between them, by cross-complaint or other adversary pleadings, and determined by the judgment in the first action.*

There were no issues joined as between the defendant co-conspirators, nor did the court purport to make any adjudication of rights as between them, with this single exception: having declared the old license agreements illegal, null and void, the court assured the defendant licensees the right to continued use of U. S. Gypsum's patents for a limited time, *but upon payment of a reasonable royalty therefor.***

(c) *Petitioners as co-conspirators.* Moreover, there is no support whatsoever for the extent to which the opinion has gone in modifying the prior decree to establish new "rights" in companies which have been adjudged guilty of conspiracy. It is not believed that a court of [fol. 1639] equity has even shown more tender concern for

---

* Re-statement of the Law of Judgments, Sec. 82; 1 Freeman on Judgments, Sec. 920; 30 Am. Juris. 966-7; 101 A. L. R. 104; 142 A. L. R. 727; 152 A. L. R. 1066; *George A. Fuller Co.* v. *Otis Elevator Co.*, 245 U. S. 489 (1918); *Fouke* v. *Jordy*, 289 F. 220 (C. A. 5th 1923); *City of Owensboro* v. *Westinghouse*, 165 F. 385 (C. A. 6th 1908).

** Decree of May 15, 1951, Art. VI; Decree of November 7, 1949, Art. VI and VIII; USG's Br. Appen. pp. vii, xviii and xix.

the interest of certain co-conspirators at the expense of another. The opinion states (p. 30):

> "One result of this unlawful use was to create an economic situation where the conspirators—other than USG—had conditioned their business operations upon the continued use of these patent rights which had been given them by the license agreements. When the Supreme Court (333 U. S. 364) determined these license agreements to be violative of the Act, these licensees were placed in an uncertain and perilous position. They were operating based on the licenses which were declared violations of the Act. They elected to disregard the license agreements and to continue use of the patented devices and methods."

At another point, in referring to the *Local Loan* case, it is said that there, as here, there is a basis for jurisdiction "to secure or preserve the fruits and advantages of a judgment or decree rendered therein" (p. 10).

Just what "fruits and advantages" a co-conspirator is entitled to in an antitrust decree is indeed difficult to comprehend. If co-conspirators National, Certain-teed, Ebsary and Newark conditioned their business operations upon the continued use of U. S. Gypsum's patents, that was part and parcel of their participation in the conspiracy. This court cannot equitably say that for their transgressions they should benefit by the free use of those patents when the decree itself required payment for their continued use. The petitioners National, Certain-teed, Newark and Ebsary were all conspirators. How does it lie in the mouth of any one of them to say that, by the mutual misconduct of all of them, they can refuse to pay for the use of the patents? The cases establishing the misuse doctrine can have no such application as between co-conspirators or law violators. If this were a simple case of an innocent infringer or licensee using the patents, [fol. 1640] there might be the basis for applying the misuse doctrine, but how can a court of equity hold that it should amend the decree, upon petition of guilty parties, to enjoin a patentee against the simple act of maintaining

a suit in another court to recover for their use of the patents?

The opinion even goes so far as to hold that their illegal activity created "rights" enabling the co-conspirators to grab the reins from the Government and obtain an amendment of the decree in order to protect and enforce their spurious private "rights." * The error is further accentuated in that this conclusion is reached without the taking of any evidence covering the period involved or for years prior thereto.

(4) The Reasons Assigned by the Court for Ordering an Amendment of the Decree to Enjoin Prosecution of the Infringement Counts Are Wholly Untenable.

The opinion states (p. 29) two reasons for ordering the modification of the final decree to include a denial of recovery upon the infringement counts of the pending U. S. Gypsum suits: (1) the teaching in the *Hartford-Empire* case, and (2) "the practical and legal situation here." Neither reason is sound.

(a) *Hartford-Empire.* The reliance on *Hartford-Empire* is based upon a misreading of certain language in the Hartford-Empire opinion on reconsideration (324 U. S. 570, 572), from which this court erroneously concludes that the Supreme Court there made some distinction between a *quantum meruit* recovery and an infringement recovery. Actually, that Court was dealing with two [fol. 1641] different claims and not with different remedies for the same claim.

The Hartford licensees (most of whom were not co-conspirators) had licenses covering not only the use of Hartford's patents, but also the lease of machinery and

---

* The opinion (pp. 7-9) relies heavily on *Missouri-Kansas Pipeline Co.* v. *United States,* 312 U. S. 503, to support the conclusion that the petitioners were given "rights" in the final decree which supported their petitions for relief. That case is wholly dissimilar. There the petitioner was not a co-conspirator, but a victim of the conspiracy, and the decree had specifically given it the right to intervene.

the furnishing of services. The trial court had appointed a receiver *pendente lite,* who had collected the royalties payable by the licensees for the use of the patents and the leased machinery, and for the services rendered under the contract.

On appeal, the Supreme Court had held that the royalties paid to the receiver by the Hartford licensees-lessees should be paid over to Hartford, unless the trial court found that since the entry of the receivership decree Hartford had violated the antitrust laws or the decree, but that "in any event" (whether or not it had violated the law or the decree) Hartford should receive out of the royalties, compensation on a *quantum meruit* basis "for services rendered to lessees" (323 U. S. 386, 411).

On petition for rehearing, the Government pointed out that, but for the receivership, many licensees would not have paid further royalties and might be able to justify such refusal. The Supreme Court, on further consideration, recognized that each licensee might have elected to repudiate its lease and license, return the leased machinery, refuse to pay further rentals and royalties, and defend any suit arising out of such refusal to pay, either for infringement or otherwise, and that possibly the licensees did not do so because they relied on the return of royalties paid the receiver, as provided by the decree. Accordingly, it modified its original handling of this matter, segregating what should be done as to the leased machinery and services and what as to claims for use of the patents. Thus, the Court held that *under any circumstances* (*i. e.,* regardless of law or decree violation) the licensees must [fol. 1642] pay reasonable rentals and service charges on a *quantum meruit* basis for the machines used and services received during this period, leaving out at that point consideration of any amount otherwise payable for the privilege of using Hartford's patents (324 U. S. 570, 572).

The Court then considered the amount to be paid for using the patents, and ruled that unless Hartford had been guilty of some added violation of the antitrust laws since the District Court decree, the licensees must elect either (a) to remain licensees on such reasonable rental and royalty basis for the future as the District Court might fix,

or (b) repudiate the licenses and litigate against Hartford their right to any portion of the rents and royalties beyond that which Hartford was to receive in any event (324 U. S. 570, 572). In other words, if any licensee chose to repudiate its license agreement, it could litigate with Hartford as to the amount that Hartford might retain of that part of the royalties collected by the receiver that was not for machines and services, but if any licensee chose to continue to use Hartford's patents and machinery, then Hartford could retain the fund and the licensees were compelled to pay, for future use, a reasonable rental and royalty as determined by the District Court.

In fact, there was an ultimate settlement made between Hartford and various licensees, whereby the receiver was to pay each licensee who executed a covenant not to sue Hartford for any transaction occurring prior to the date of the final decree, a sum equal to 60% of the royalties which the particular licensee had paid the receiver, less certain minor expenses, and to pay the remaining 40%, less certain incidental amounts, to Hartford (See Par. 11, *Hartfort-Empire* final decree of October 31, 1945, and *Buck Glass Co.* v. *Hofferbert,* 176 F. 2d 250 (C. A. 4th 1949)). This resulted in Hartford's receiving a total of $7,267,049.82 from its licensees during this *pendente lite* [fol. 1643] period.* If Hartford was permitted to receive over $7,260,000 under its outstanding licenses which were invalidated by the decree, the *Hartford* case is certainly authority *against* enjoining U. S. Gypsum from seeking reasonable compensation for the actual use of its patents by its co-conspirators during a comparable *pendente lite* period.

This court's speculation (Op. pp. 31-32) that the Supreme Court language in *Hartford* shows that the court had in mind differences in the bases of recovery on *quantum meruit* and for infringement (*i. e.,* differences in measurement of damages for infringement and on *quantum meruit*) is completely without foundation and can furnish

---

* "Final Report and Account of Operations of Receiver of Hartford-Empire Company" (p. 5) filed Dec. 20, 1945 in Civil Action No. 4426, U. S. Dist. Ct. N. D. Ohio W. D.

no basis whatsoever for the conclusion that the infringement counts should be enjoined. This is shown not only by the Government's petition for reconsideration and the various briefs of the parties filed with the Supreme Court before its second opinion which in no way discussed or considered differences in the bases of recovery, but also by the final decree that was entered in *Hartford-Empire* which made no such distinction.

(b) *The "practical and legal situation."* The so-called "practical and legal situation here" is equally ineffectual in furnishing any proper basis for enjoining the infringement counts.

The "practical situation" relied upon is set out in nine numbered paragraphs stating in rather inadequate fashion certain events in the course of the main litigation (Op. pp. 27-29). Notwithstanding everything there stated, the opinion had concluded (p. 25) that the final decree in this case did not cover the matter of U. S. Gypsum's right to sue for infringement or for *quantum meruit* for the use of its patents during the 1948-1951 period. Now, however, it states that the decree should be modified to include a denial [fol. 1644] of recovery upon the infringement counts because of the "economic situation" which the conspirators other than U. S. Gypsum found themselves in by reason of having conditioned their business operations upon the continued use of the patent rights given them under the license agreements and which, upon the Supreme Court's first opinion, were found to be violative of the Act, thus placing these licensees "in an uncertain and perilous position" (p. 30).* In the co-conspirators' election to repudiate the old license agreements and to continue using U. S. Gypsum's patents,** the opinion, erroneously as we have

---

* For a further statement as to the error in this solicitude for co-conspirators, see *supra*, pp. 22-20.

** The opinion states that they elected to disregard the license agreements and to continue use of the "patented devices and methods." At another point, in describing the old license agreements (p. 28), it is said that they included "both process and machinery covered by the pat-

shown, saw "a close parallel—if not indeed a here controlling guide" in the two *Hartford-Empire* cases.***

The inconsistency between this ruling and the ruling at another point in the opinion (*i. e.* that the New York and New Jersey federal courts should determine the issue of infringement *vel non* by Ebsary and Newark, respectively) is discussed elsewhere in this memorandum (*supra*, pp. 9-10).

U. S. Gypsum respectfully urges that, in view of the matters hereinbefore presented, this court reconsider its opinion of July 6, 1954, and afford an opportunity for further hearing with respect thereto, before it formalizes the opinion by the entry of findings of fact, conclusions of law, and amendment to the decree of May 15, 1951.

[fol. 1645] Part II.

U. S. Gypsum objects to the proposed findings of fact, conclusions of law, and modification of the final decree in their entirety and to each paragraph thereof for the reasons stated in Part I hereof, and in addition thereto, and without waiving any of its general objections and suggestions, makes the following specific objections and suggestions:

A. Petitioners' Proposed Findings of Fact.

(1) Proposed Finding 1.

Proposed finding 1 reads;

> "On August 15, 1940, the United States brought an Anti-Trust action (Civil No. 8017) against United

---

ents." This suggests an unawareness of the fact that basic product patents were included which were essential in the manufacture and sale of gypsum board. For example, Patent No. 2,017,022 (involved in all the pending suits) included seven product and five process claims. This, of course, is another of the many distinctions between this case and *Hartford-Empire*. There, none of the over 600 patents read on glass products.

*** This, of course, has reference to the two Supreme Court decisions on the appeal and on reconsideration.

States Gypsum Company, et al., * * *. The complaint charged that a controlling unlawful combination was effectuated by means of substantially uniform patent license agreements between USG and the other manufacturing defendants as licensees."

Objection is made to this proposed finding in that:

1. The first sentence is inadequate and misleading in failing to disclose that the antitrust action brought by the United States was not only against U. S. Gypsum, but also against National, Certain-teed, Newark and Ebsary, the four companies who filed the 1953 petitions seeking an amendment of the final decree to their benefit and to the detriment of U. S. Gypsum.

2. The second sentence is inadequate, inaccurate and misleading in its statement of the charges contained in the complaint and gives the impression that the patent license agreements constituted the sole charge of "unlawful com- [fol. 1646] bination." Although the opinion makes this brief statement of the complaint at the outset (p. 2), it recognizes its inadequacy later (p. 13) when it is stated:

> "The opinion of Chief Judge Stephens very finely and completely narrates the facts and issues on the trial which resulted in the first appeal (333 U. S. 364). We refer to his opinion (*United States* v. *United States Gypsum Co.*, 67 F. Supp. 397) for a more detailed statement of the issues."

It is suggested that the proposed finding be changed to read:

> 1. On August 15, 1940, the United States brought an Anti-Trust action (Civil Action No. 8017) against United States Gypsum Company, National Gypsum Company, Certain-teed Products Corporation, The Celotex Corporation, Ebsary Gypsum Company, Inc., Newark Plaster Company, et al., which were engaged in the mining of gypsum rock and in the manufacture and sale of gypsum products. The complaint charged a violation of Sections 1, 2, and 3 of the Sherman Act by reason of the defendants' activities in the man-

ufacture and sale of gypsum products, carried out in part under the guise of patent license agreements entered into by U. S. Gypsum, as licensor, and by National, Certain-teed, Ebsary, Newark and other companies, as licensees. For a more detailed statement of the issues, reference is made to the opinion of Chief Judge Stephens narrating the facts and issues on the trial of the case (*U. S.* v. *U. S. Gypsum Co. et al.*, 67 F. Supp. 397).

(2) Proposed Finding 2.

Proposed finding 2 reads:

> "On the first trial on the merits, June 15, 1946 (67 F. Supp. 397), this statutory Court of three judges determined that, under its construction of *United States* v. *General Electric Co.* (272 U. S. 476), the separate license agreements were legal (pp. 421-441); [fol. 1647] and that these agreements were made *bona fides* with no ulterior purpose to violate the Act (pp. 458-484). At the close of evidence for the United States, the Court sustained a motion to dismiss the complaint under Rule 41(b) of the Federal Rules of Civil Procedure * * *."

Objection is made to this proposed finding in that:

1. The opening phrase of the first sentence, "on the first trial on the merits," erroneously implies that there was a subsequent trial or trials on the merits in which defendants had the opportunity of presenting evidence. There has been but one trial on the merits, and that did not proceed beyond the taking of the Government's evidence.

2. The date "June 15, 1946" erroneously indicates there was a one day hearing. In fact that was the date of this court's decision.

3. The first sentence is misleading in its implication that the determination of the three-judge statutory court had only to do with the construction of the license agreements under the *General Electric* case.

It is suggested that the proposed finding be changed to read:

> 2. The case came on for trial in due course and at the close of evidence for the United States, this statutory court of three judges on June 15, 1946 determined, among other things (67 F. Supp. 397), that, under its construction of *United States* v. *General Electric Co.* (272 U. S. 476), the separate license agreements were legal (67 F. Supp. at pp. 421-441); and that these agreements were made *bona fides* with no ulterior purpose to violate the Act (67 F. Supp. at pp. 458-484). The Court sustained a motion to dismiss the complaint under Rule 41(b) of the Federal Rules of Civil Procedure upon the ground that on the facts and the law the Government had shown no right to relief (*U. S.* v. *U. S. Gypsum Co., et al.*, 67 F. Supp. 397).

[fol. 1648] (3) Proposed Findings 4 and 5.

Proposed finding 4 reads:

> "The Supreme Court (333 U. S. 364) decided that the industry-wide license agreements, entered with mutual knowledge of the licensor and of all of the different licensees, under which prices and distribution methods would be controlled, established an unlawful conspiracy and monopoly; and that '* * * regardless of motive, the Sherman Act barred patent exploitation of the kind that was here attempted' (p. 393)."

Proposed finding 5 reads:

> "The Supreme Court (393 U. S. 364) determined that USG had misused its patents to create various unlawful restraints effecting monopolization of the entire gypsum industry. This misuse extended to price regulation, to suppression of related or similar unpatented products, and to regulation of methods and agencies of distribution. The effective instrumentalities used by USG were patent license agreements containing various restrictive provisions. Such agreements covered control (a) of prices of patented gyp-

sum board (expanded in 340 U. S. 76 to cover gypsum products), (b) control or affection of prices of unpatented gypsum products, and (c) control over terms and conditions of sale and distribution thereof."

Objection is made to these proposed findings in that:

1. They are inaccurate and misleading in ignoring the fact that the first appeal was at the conclusion of the plaintiff's case and that the Supreme Court's first opinion only dealt with the question whether or not the plaintiff had proved a *prima facie* case such as would require the defendants to proceed with their evidence.

2. They are inaccurate, misleading and inconsistent with prior interpretation of this court in that they include statements from the first Supreme Court opinion which are inapplicable now in view of defendants' proffers of [fol. 1649] proof, which were accepted as true by this court in granting the plaintiff's subsequent motion for summary judgment, and by the Supreme Court's second decision affirming the narrow adjudication of Sherman Act violation as found in the November 7, 1949 decree.

3. They improperly quote from the first Supreme Court's opinion and in doing so are inadequate and misleading in omitting significant portions necessary to accurately describe it.

4. Proposed finding 5 erroneously states that the Supreme Court in its first opinion made a determination against U. S. Gypsum that it had misused its patents; that the effective instrumentalities used by U. S. Gypsum were patent license agreements; that the agreements covered control (a) of prices of patented gypsum board "expanded in 340 U. S. 76 to cover gypsum products", (b) "control or affection of prices of unpatented gypsum products", and (c) control over terms and conditions of sale and distribution thereof.

None of these findings set forth in proposed finding 5 were made or could have been made against U. S. Gypsum in the first opinion without its ever having had an opportunity to present its evidence. Everything said in the opinion with respect to these matters only referred to the *prima facie* case that the Government had made against

all the parties to the license agreements, not just the licensor. Moreover, the ultimate disposition of the case was on the narrow adjudication of law violation by the concerted action of the defendant companies restraining and monopolizing trade in gypsum board. When this court accepted defendants' proffered proof as true, and the Supreme Court, on dismissing U. S. Gypsum's appeal, did likewise (340 U. S. 76 at p. 88), it is improper for the court as presently constituted to refuse to accept the basis [fol. 1650] of the prior action of this court and the Supreme Court and thus rewrite the history of the litigation.

Proposed finding 5 is grossly in error in stating that in 340 U. S. 76, the Supreme Court found that the license agreements covered control of prices of gypsum products as well as patented gypsum board. On the contrary, in dismissing U. S. Gypsum's appeal, the Supreme Court affirmed Article III of the November 7, 1949 decree which expressly limited the adjudication of illegality to the defendant companies' concerted action "to fix, maintain and control the prices of *gypsum board*" and the monopolization of trade in the "gypsum *board* industry." (Emphasis ours.) What the court did in 340 U. S. was to expand the injunctive provisions to future acts in restraint of trade of "gypsum products" as well as "gypsum board". on the theory that the relief may go beyond "the narrow limits of the proven violation."

5. Proposed finding 5 inaccurately states the terms of the old license agreements.

It is suggested that proposed finding 4 be changed to read like the earlier findings of this court with respect to the first Supreme Court decision, as made in the November 7, 1949 decree and again in the May 15, 1951 decree, and that proposed finding 5 be corrected, so that the proposed findings would read:

> 4. The Supreme Court (333 U. S. 364) decided that the Government's *prima facie* case showed that the defendants acted in concert to restrain trade and commerce in the gypsum board industry, and monopolized said trade and commerce, among the several states in the Eastern territory of the United States, which territory embraces all of the states of the United States

westward from the Eastern Coast thereof to the Rocky Mountains, and including New Mexico, Colorado, Wyoming, and the eastern half of Montana.

5. The Supreme Court in its opinion on the Gov- [fol. 1651] ernment's *prima facie* case (333 U. S. 364) held that the concerted action of the defendants in entering into the industry-wide licenses with price fixing provisions, adhered to by the parties with knowledge of adherence of the others, violated the Sherman Act.

(4) Proposed Findings 6 and 7.

Proposed finding 6 reads:

"One result of the patent misuse was to create an economic situation where the conspirators—other than USG—had organized their manufacturing plants and conditioned their business operations upon the continued use of these patent rights which had been given them by the license agreements."

Proposed finding 7 reads:

"When the Supreme Court (333 U. S. 364) determined these license agreements to be violative of the Act, these licensees were placed in an uncertain and perilous position. They were operating based on the licenses which were declared violations of the Act. They elected to disregard the license agreements and to continue use of the patented devices and methods."

Objection is made to these proposed findings in that:

1. Without any foundation of fact, they unfairly suggest that the organization of the defendant licensees' manufacturing plants and conditioning of their business upon the continued use of U. S. Gypsum's patents was the result of the misuse of the patents. The record shows that the license agreements included basic patents which were necessary to the production of the improved gypsum board the trade demanded (USG Br., pp. 15 (fn. 12), 23, 26).

2. They erroneously suggest that co-conspirators, as a result of their participation in the conspiracy, are en-

titled to some special consideration and treatment by this court, different and more generous than was accorded [fol. 1652] them in the final decree, which as shown (*supra*, pp. 20-22) is wholly unwarranted.

3. Proposed finding 6 improperly implies that the co-conspirator licensees had been given some "patent rights" in U. S. Gypsum's patents. All that had been given them was a license to use the patents upon payment of a reasonable royalty.

4. Proposed finding 7, in stating that the licensees elected to continue use of "the patented devices and methods," mistakenly implies that U. S. Gypsum's patents were in no sense fundamental product patents but involved only "patented devices and methods." In fact, such licensees continued using U. S. Gypsum's patents which covered the product as well as devices and methods, patents which were essential to the successful production of commercial gypsum board and necessary for them to be competitive with anyone having the right to use the patents (USG Br., pp. 22-23, 26 (Prof. Proof 5, 61, 62).)

5. An inconsistency exists between the proposed findings 6 and 7 and the position which National and Certainteed have taken in the pending Iowa suits, and which Newark and Ebsary apparently also plan to take in the suits against them (Op., p. 22), *i. e.* that they were not using USG's patents during the 1948-1951 period. If this be so (which U. S. Gypsum challenges), then the court's concern for their "uncertain and perilous position" is unwarranted; if the patents were essential to their continued manufacture of gypsum board, then in equity and fairness they should pay for such use.

It is suggested that these proposed findings be modified to read as follows:

> 6. There is an inconsistency in the defendant petitioners' position taken before this court in 1949, *i. e.* that they had organized their manufacturing plants and conditioned their business operations upon con- [fol. 1653] tinued use of U. S. Gypsum's patents, and the position taken in the Iowa suits (and to be taken in the New Jersey and New York suits) that they were not using the patents sued on. Defendants' proffered

proof shows that the patents were basic and that their use was essential in the manufacture and sale of gypsum board.

7. When the Supreme Court (333 U. S. 364) held that the license agreements were *prima facie* violative of the Sherman Act, the defendant licensees elected to disregard the license agreements but nevertheless contiud to use the patents of U. S. Gypsum without the payment of any compensation therefor.

(5) Proposed Findings 9 and 10.

Proposed finding 9 reads:

"After rehearing was denied (April 5, 1948, 333 U. S. 869), this Court held a conference of counsel which resulted ultimately in a motion by the Government for summary judgment, it being claimed that there was no genuine fact issue remaining to be determined. Defendants USG and Celotex filed offers of proof as to fact matters they deemed yet in issue. These two occurrences were in June 1948. Beginning in June 1948 and extending to June 14, 1949, numerous briefs and memoranda were filed by the various parties in connection with the motion for summary judgment, the offer of proofs, suggested findings of fact, and form and contents of decree to be entered."

Proposed finding 10 reads:

"On June 14, 1949 this Court held an extended hearing upon all of these matters. At the hearing, a majority of this Court made clear their intention to sustain the motion for summary judgment; and counsel for all parties were given time to file suggestions and memoranda as to form of decree and other pertinent matters. Such suggestions and memoranda were filed up to August 12, 1949. Without further hearing, this Court entered its decree of November 7, 1949."

[fol. 1654] Objection is made to these proposed findings in that:

1. They do not accurately describe the proceedings on the remand following the first Supreme Court appeal.

This court has twice recorded those proceedings in finding form (in the preliminary statements of the November 7, 1949 decree and in the final decree—USG Br., Appen. pp. ii, xiv). This court should not now modify the record made by the judges sitting at the time those proceedings occurred.

2. Proposed finding 9 erroneously implies that only defendants U. S. Gypsum and Celotex filed proffers of proof. In fact, Certain-teed and Newark joined in U. S. Gypsum's proffer of proof, and National stood upon the matters set forth in its answer (1950 R. 30-31) which fully supported the proffered proof (1947 R. 214-228).

3. They are inaccurate, misleading and confusing in reporting the proceedings on the motion for summary judgment and on the questions raised with respect to the form of findings of fact, conclusions of law and decree to be entered. Briefs and memoranda were filed in June, 1948, in support of and in opposition to the motion for summary judgment, and the decision of the majority to sustain the motion was made June 29, 1948, and not at the June 14, 1949 hearing as is stated in Proposed Finding 10. Following the filing of the Government's proposed findings, conclusion and decree in November, 1948, and prior to the June 13 and 14, 1949 hearing, defendants National, Certain-teed, Ebsary and Newark, as well as U. S. Gypsum, filed their objections and suggestions as to the findings, conclusions and form of decree.* At the June 1949 hearing, National and Newark requested leave to file additional memoranda, and U. S. Gypsum was granted leave to file answers thereto. The Government also filed a sup- [fol. 1655] plemental memorandum, and U. S. Gypsum replied to that. These were the only memoranda filed between June 14, 1949 and August 12, 1949, and all had to do with the matters discussed at the June 13 and 14, 1949 hearing.

It is suggested that the proposed findings be modified to

---

* USG Br. pp. 10-12. The brief states that Newark did not file such a memorandum. This is in error, as the court file will show that it also filed a memorandum on March 3, 1949.

accord with this court's prior statement in the 1949 decree and the 1951 final decree as follows:

> 9. After rehearing was denied (April 5, 1948, 333 U. S. 869) and following the remand, the plaintiff in June, 1948, pursuant to Rule 56 of the Federal Rules of Civil Procedure moved for summary judgment in its favor upon the pleadings and all of the proceedings which theretofore had been in the case or in the alternative for such further proceedings as this court might direct, and defendants, by direction of the court, in June, 1948, filed proffers of proof. Argument by counsel for the respective parties upon the motion of plaintiff was heard by the court on June 29, 1948, and after due consideration of such argument and the defendants' proffers of proof, Garrett, *J.*, and Jackson, *J.*, constituting a majority of the court, announced a ruling on June 29, 1948 to the effect that plaintiff's motion for summary judgment would be granted, and Stephens, *J.*, who presided during the trial, announced his dissent from such ruling. Thereafter counsel for plaintiff and counsel for certain defendants submitted forms of final decree for the consideration of the court and also suggested findings of fact.
>
> 10. In due course, the court heard arguments respecting the proposed decree and suggested findings of fact on June 13 and 14, 1949, and full consideration was given thereto and to all prior proceedings—all being considered in the light of the decision of the Supreme Court which, as understood by the majority of this court, held that the defendants acted in concert to restrain trade and commerce in the gypsum board industry and monopolized such trade and commerce among the several states in that section referred to as the Eastern territory of the United States. Thereafter this court on November 7, 1949, entered its de- [fol. 1656] cree sustaining plaintiff's motion for summary judgment and granting relief which it deemed appropriate to its adjudication.

(6) Proposed Findings 11, 12, 13 and 14.

Proposed finding 11 states that the June 14, 1949 hearing, and the written or printed suggestions and memoranda of the parties filed before, in connection with and after the hearing, had to do, among other things, with the various suggestions as to the form of decree, including the scope and purposes of what later became in substance Articles III, IV and VI of that decree; that practically all of the matters were concerned with prevention of violation in the future after the effective date of the decree; that U. S. Gypsum was much concerned with avoiding any provision in the decree declaring the licenses illegal, null and void in their entirety, and "voiced its apprehensions as to whether these petitioners would be absolved from payment of royalties for the period involved here by such a provision in the decree."

Proposed finding 12 contains four quotations from a USG reply memorandum filed July 23, 1949, attacking the defendant licensees' suggestions that each patent license be adjudged illegal as having no purpose other than to attempt to obtain some advantage with respect to the use of the patents, they apparently believing that "it will relieve them from accounting for anything done either before or after the Supreme Court's decision."

Proposed finding 13 states that the main contention between USG (on one side) and the Government and the other defendants (on the other side) was whether the proposed decree should declare only the price-fixing provisions or the entire license agreements illegal; that USG contended strenuously that it be limited to the price-fixing provisions, this appearing not only in its arguments and [fol. 1657] briefs in connection with the June 14, 1949 hearing, but also in its original suggestions as to prospective Articles III, IV, V and VI; that while urging that only the minimum price provision be declared illegal, USG at the same time urged that the agreements should be cancelled as of the date of the decree; and that "the result of and purpose of these contentions would be to leave the agreements valid—therefore enforceable—until entry of the decree, except for the minimum price provisions"; and that "it was in this setting and in relation to

these contentions that USG expressed its apprehensions above set out."

Proposed finding 14 states that the November 7, 1949 decree adopted the contention of the Government and the licensees and declared the agreements illegal, null and void in entirety.

Objection is made to these proposed findings in that:

1. They fail to give a true and accurate description of the controversy between the plaintiff on one side, and the defendants on the other, as to the scope of the adjudication and the provisions to be included in the findings, conclusions and decree to be entered.

2. They inaccurately and unfairly place U. S. Gypsum's contention with respect to Article IV in a false and distorted light, by disregarding all other matters discussed and by completely ignoring the statements and contentions made by the other defendants with respect thereto.

3. They are inaccurate, misleading and unfair in stating that U. S. Gypsum voiced its apprehensions as to whether the proposed provision declaring the licenses illegal, null and void would absolve the petitioners from payment of royalties for the 1948-1951 period. In fact, U. S. Gypsum at no point conceded that such a result would follow, but merely suggested that point as the apparent hope motivating the defendant licensees' position [fol. 1658] 4. In erroneously endeavoring to portray the controversy as one between U. S. Gypsum on one side, and the Government and other defendants on the other, the proposed findings fail to state as a fact that in their written memoranda filed before the June 13 and 14, 1949 hearing, the defendants National, Certain-teed, Newark and Ebsary joined with U. S. Gypsum in proposing that Article IV should declare only the "minimum price provisions" of the licenses illegal.* Moreover, they fail to state the fact that in changing their position at the oral argument, National, Certain-teed, Newark and Ebsary assigned specific reasons for the new position that the agreements be

---

* USG Br. pp. 10-12; see also Newark memo filed March 3, 1949.

declared illegal, null and void, but none of them included, as a reason, that it should be done to relieve them of paying royalty or other compensation for the actual use of U. S. Gypsum's patents during the period involved. In fact, there was denial at the hearing that that was one of the reason (USG Br., pp. 13-14).

5. They improperly and erroneously imply that U. S. Gypsum was the only party urging that the existing agreements be "cancelled, as of the date of the decree"—*i. e.*, at a later date than others suggested. All of the forms of decree proposed by all parties provided for formal cancellation of the license agreements on or after the date of the decree.

It is suggested that the proposed findings be modified as follows:

> 11. The hearing on June 13 and 14, 1949, and the written or printed suggestions and memoranda of the parties filed before, in connection with, and after that hearing, had to do, among others things, with various suggestions as to the form of decree to be entered, including the scope and purposes of what later became in substance Articles III, IV, V and VI of that decree. Practically all of the discussion was concerned with [fol. 1659] prevention of Sherman Act violations in the future, that is, after the decree had been entered. Among other questions was whether the decree should declare the license agreements illegal, null and void or should condemn only the price fixing provisions thereof.
>
> 12. In the form of decree originally proposed by the Government, there was no provision declaring illegal either the license agreements or the price fixing provisions thereof, the Government's proposed form of decree merely providing for the concellation of the license agreements upon the execution of new license agreements, but in any event within sixty days after entry of the proposed decree, and prohibiting enforcement of them after such cancellation. In the form of decree suggested by defendant USG, proposed Article IV would have declared the minimum price provisions

of the license agreements illegal and cancelled the agreements, and Articles VI and VII provided for negotiation of new licenses. In memoranda filed with this court by Newark on March 3, 1949, and by National, Certain-teed, and Ebsary on March 4, 1949, these defendants approved and adopted Article IV as proposed by U. S. Gypsum, and other provisions of its proposed decree, but objected to its procedure for new licenses set forth in Articles VI and VII.

13. At the June 13 and 14, 1949 hearing, the Government argued for its decree as originally proposed. U. S. Gypsum argued for its proposed decree. The defendant licensees thereupon presented to the court a plan for the presentation, by their respective counsel, of their positions with respect to the matters before the court. Counsel for National, Certain-teed, Celotex, Newark and Ebsary restated positions taken by them in their written memoranda except that they reversed their prior position as to proposed Article IV and urged that the license agreements should be declared illegal, assigning as reasons therefore (a) that the Supreme Court decision had held them to be illegal, (b) that from a practical standpoint it should be done to avoid disputes which would arise in negotiating new agreements, (c) that the example of the *Masonite* decree should be followed, and (d) that [fol. 1660] unless the entire agreement was struck down, the court would be making a new contract for the parties. None of them stated as a reason for the suggested new provision the desire or intention of avoiding payment of royalties or reasonable compensation for actual use of U. S. Gypsum's patents. In fact, attorney Dallstream, speaking for Celotex and Certain-teed in formally presenting the new version of Article IV, gave assurance to the court, and to U. S. Gypsum, that they were not attempting by such a declaration of illegality to find some way of avoiding payment of the license fees which, during this period, none of them had paid (1950 R. 8221). Neither National, Newark nor Ebsary made any disclaimer as to this statement of intention. In its reply argument at

the close of the hearing, the Government accepted the defendant licensees' suggestion and proposed that its form of decree be amended to provide not only that the license agreements be cancelled but also that they be declared illegal, null and void. Subsequent to the hearing, National and Newark filed supplemental memoranda in which they urged that Article IV should declare the agreements illegal for the reasons therein assigned, none of which suggested a purpose or intent to avoid payment for use of U. S. Gypsum's patents. On July 23, 1949, U. S. Gypsum filed its reply to the National and Newark supplemental memoranda, in which it restated the suggestion made at the oral argument that the licensees could have no purpose in making the suggestion that each license be adjudged illegal except to obtain some advantage with respect to the use of the patents, and that they apparently believed it would relieve them from accounting for anything done before or after the Supreme Court decision.

14. Article IV of the decree of November 7, 1949, adjudged each of the license agreements "unlawful under the antitrust laws of the United States and illegal, null and void."

[fol. 1661] (7) Proposed Finding 15.

Proposed finding 15 reads:

"When this Court granted a summary judgment on the remand and entered its decree, both the Government and defendant USG appealed. The decree of November 7, 1949, therefore, never became effective. The Government objected to the decree as being too narrow and as inadequate to cure the ill effects of the illegal conduct of the defendants. USG contended its proffer of proof revealed issues of fact which this Court should have determined instead of granting the summary judgment."

Objection is made to this proposed finding in that:

1. It erroneously and inaccurately states that the decree of November 7, 1949 never became effective because of the appeals by the Government and U. S. Gypsum. The Government did not seek a supersedeas in connection with its appeal. The decree operated as a restraint upon the actions of the defendants from November 7, 1949 until the date of U. S. Gypsum's appeal on January 6, 1950, in connection with which a supersedeas order was entered. This supersedeas, however, was not effective after the dismissal of U. S. Gypsum's appeal on May 29, 1950. The finding that the decree of November 7, 1940 never became effective is not supported by the marginal references to this court's opinion.

2. It is inconsistent with this court's statement (Op. p. 16) that "Article IV of that decree nullified completely the license agreements listed in Article II" and is inconsistent with proposed conclusion of law 7, based on that statement.

3. The last sentence of the proposed finding inadequately states U. S. Gypsum's contention on its appeal from the November 7, 1949 decree.

[fol. 1662] It is suggested that proposed finding 15 be changed to read:

> 15. When this court granted a summary judment on the remand and entered its decree both the Government and defendant USG appealed. The Government objected to the decree as being too narrow and as inadequate to cure the ill effects of the illegal conduct of the defendants. U. S. Gypsum contended that it had not had its day in court and had not been afforded an opportunity to present its evidence to establish that it had not violated the Sherman Act by reason of its industry-wide patent licenses or otherwise.

(8) Proposed Finding 17.

Proposed finding 17 reads:

> "On the appeal by the Government, the Supreme Court altered and broadened some of the provisions

of the decree of November 7, 1949 and remanded the case 'for further proceedings in conformity with the opinion' (340 U. S. 76, 95). In that opinion there was no direct reference to a situation such as is now presented to the Court arising from these USG suits; Article IV of the decree of November 7, 1949 of this Court which declared the license agreements illegal, null and void in their entirety was not changed."

Objection is made to this proposed finding in that:

1. It erroneously implies that the second Supreme Court decision (340 U. S. 76) made indirect reference to the situation now presented to the court. In fact, the opinion did not refer directly or indirectly to U. S. Gypsum's right to be compensated for the use of its patents during the period covered by the U. S. Gypsum suits, although it did expressly affirm the compulsory licensing provisions which conditioned the right to a license under U. S. Gypsum's patents *upon the payment of a reasonable royalty for such use.*

[fol. 1663] 2. It erroneously implies that Article IV of the November 7, 1949 decree was given some special consideration by the Supreme Court, in the light of the inaccurate history of the litigation set forth in earlier proposed findings. The scope of Article IV was not in issue on the second appeal.

It is suggested that the last sentence of the proposed finding 17 be stricken, and that there be substituted in lieu thereof the following:

> In that opinion there was no reference, directly or indirectly, to a situation such as is now presented to the court arising from these USG suits, although the court did expressly approve the compulsory licensing provisions assuring U. S. Gypsum a reasonable royalty for the actual use of its patents. No issue was raised on the second appeal to the Supreme Court with respect to Article IV of the decree of November 7, 1949 of this court declaring the license agreements illegal, null and voil, and Article IV was not changed in the final decree.

(9) Proposed Finding 18.

Proposed finding 18 contains a lengthy quotation from the second Supreme Court opinion (340 U. S. 88-99) setting forth legal principles involved in the respective functions of the trial court and the appellate court in the formation of a decree upon a finding of conspiracy in restraint of trade and monopoly.

Objection is made to this proposed finding as being irrelevant, immaterial and wholly improper as a proposed finding of fact in that:

A quotation from a court opinion stating general principles of law is not in any sense a finding of fact pertinent to the factual issues before this court. The portion of the Supreme Court's second opinion selected for submission [fol. 1664] as proposed finding 18 deals merely with legal principles enunciating the respective functions of the trial court and the appellate court in the formation of decrees.

It is suggested that proposed finding 18 be deleted in its entirety.

(10) Proposed Finding 20.

Proposed finding 20 reads:

> "On May 15, 1951, this Court modified its earlier decree in accordance with the opinion of the Supreme Court. There was no appeal therefrom. This is the present Final Decree."

Objection is made to this proposed finding in that:

The finding is inadequate in describing the proceedings after the remand following the second appeal that led to the entry of the final decree.

It is suggested that the proposed finding be modified to read as follows:

> 20. Upon the remand following the second Supreme Court opinion (340 U. S. 76) this court ordered counsel for the plaintiff and for the defense to submit forms of decree in conformity with the Supreme Court opinion, and the plaintiff and defendants U. S. Gypsum, National, Certain-teed and Celotex each filed its proposed form of decree. There was no provision

in any of these suggested forms of decree as to whether or not U. S. Gypsum was to receive compensation for the use of its patents during the 1948-1951 period covered by the pending U. S. Gypsum suits. In each form of decree so submitted by the various parties, however, provision was made that for a limited period any applicant could obtain a license to use U. S. Gypsum's patents pertaining to gypsum board, for which U. S. Gypsum should be paid a reasonable royalty. Following negotiations of all parties submitting forms of decrees, a revised form of decree was submitted to the court on May 15, 1951, which was [fol. 1665] acceptable to all parties. Upon consideration of the provisions of the agreed form of decree, and after satisfying itself that the decree conformed to the requirements of the second Supreme Court opinion, and having ascertained that all parties agreed as to the form of decree, this court modified its earlier decree by the entry of the final decree of May 15, 1951. There was no appeal therefrom. This is the present final decree.

(11) Proposed Findings 21 and 22.

Proposed findings 21 and 22 read as follows:

"21. The pattern of the Final Decree of ten Articles is as follows: Article I is the jurisdictional declaration; Article II is the definition of terms used in the Decree, these include 'Patents' and 'Patent Licenses'; Article III declares the defendants have acted in concert to violate Sections 1 and 2 of the Act; Article IV is that 'Each of the license agreements listed in Article II hereof is adjudged unlawful under the antitrust laws of the United States and illegal, null and void'; Article V contains the injunction provisions; Article VI covers non-discriminatory compulsory license agreements from USG to applicants therefor, subject to approval of the District Court; Articles VII and IX are not material here; Article VIII provides for supervision by the Department of Justice to secure compliance with the Decree; Article X is the reserva-

tion of jurisdiction for the purposes of construction of, carrying out of, or enforcement of the Decree.

"22. A condensation of the method or plan of the Decree to remedy the unlawful situation may be stated as follows: by annulling the existing named license agreements; by injunction against acts which would tend to defeat the Decree; by use of new compulsory court supervised license agreements; by Department of Justice supervisory inspections; and by retention of broad jurisdiction to protect and effectuate the purposes of the Decree."

[fol. 1666] Objection is made to these proposed findings in that:

1. They are inadequate in omitting all reference to the preliminary statement to the decree, which describes the proceedings before this court upon remand following both the first and second Supreme Court appeals, and recites that the adjudication was that "there was concerted action through the fixed-price licenses and accepting as true the underlying facts in the defendants' proof of proffer." (USG Br. Appen. p. iii.)

2. They are inadequate, inaccurate and misleading in their brief description of the various provisions of the decree with reference to the specific issues now before the court.

3. They are inaccurate and misleading in stating that the proposed finding with reference to Article VI "covers non-discriminatory compulsory license agreements from USG to applicants therefor, subject to approval of the district court," in omitting completely any reference to the fact that such compulsory licenses were to be upon the payment of reasonable royalty for the use of U. S. Gypsum's patents, and in failing to point out that court approval was limited to questions that might arise as to the amounts of the reasonable royalties to be charged for the use of U. S. Gypsum's patents.

4. Proposed finding 22, stating the method or plan of the decree, is inadequate and misleading in describing the injunctive provisions of Article V of the final decree and failing to show that they were to prevent price fixing and

other trade restraints by license agreements or other agreements or understandings and had nothing to do with U. S. Gypsum's right to sue for use of its patents. It is inaccurate and unfair merely to characterize such injunctive provisions as being "against acts which would tend to defeat the Decree", in view of the present issues before [fol. 1667] the court of whether or not the injunctive provisions should be modified and expanded to enjoin U. S. Gypsum from suing for compensation for use of its patents.

5. The condensed statement of the method or plan of the decree (Proposed Finding 22) is also inaccurate and misleading in stating that the decree aimed to remedy the situation "by use of new compulsory court supervised license agreements," without showing that the decree assured U. S. Gypsum compensation for use of its patents, and that the court supervision was only with respect to the amount of the reasonable royalties to be charged for the use of such patents.

6. The condensed statement of the method or plan of the decree is also inaccurate and misleading in describing Article X as the "retention of broad jurisdiction to protect and effectuate the purposes of the decree", in light of the limited scope of the reservation clause in Article X when compared to the much broader reservations of jurisdiction in other antitrust adjudicated and consent decrees (USG Br. p. 39).

It is suggested that the proposed findings be modified to read as follows:

> 21. The pattern of the final decree is as follows: A preliminary statement reviews the proceedings and recites that the basis of the adjudication of Sherman Act violation is that there was concerted action through the fixed-price licenses and accepting as true the underlying facts in the defendants' proof by proffer. Article I is the jurisdictional declaration. Article II contains a definition of terms used in the decree, including "Patents" and "Patent Licenses." Article III declares that the defendants have acted in concert in restraint of trade in the eastern territory of the United States to fix, maintain and control prices of

gypsum board, and have monopolized trade in the gypsum board industry in violation of Sections 1 and 2 of the Act. Article IV states that each of the listed [fol. 1668] license agreements is adjudicated unlawful under the antitrust laws of the United States and illegal, null and void. Article V enjoins the defendants from entering into or performing any agreement or understanding among them or other manufacturers of gypsum products to fix, maintain or stabilize prices or terms or conditions of sale of gypsum products "by patent license agreements or other acts or courses of action," and enjoins certain pricing and selling practices pursuant to such an agreement or understanding. Article VI provides for compulsory licensing at reasonable royalty under U. S. Gypsum's patents or applications for patents relating to gypsum board now owned or controlled by it or issued to, applied for, or acquired by it within five years from the date of the decree. Articles VII and IX are not material here. Article VIII gives the Department of Justice access to certain records of the defendants for the purpose of securing compliance with the decree. Article X reserves jurisdiction for the purpose of permitting application to the court as may be "necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of the compliance therewith."

22. A condensation of the method or plan of the decree to remedy the unlawful situation may be stated as follows: by annulling the named license agreements; by injunction against certain pricing and selling practices by agreement or understanding; by compulsory licensing, on reasonable loyalty, of U. S. Gypsum's patents relating to gypsum board; by Department of Justice supervisory inspections; and by retention of limited jurisdiction to construe, carry out and enforce the decree.

(12) Proposed Finding 23.

Proposed finding 23 reads:

> "USG did not purge the misuse of its licensed patents. USG urges five facts which it claims constitute evidence of purge at a time prior to May 15, 1951. These are as follows:"
>
> [fol. 1669] (Whereupon further proposed findings are stated in separate paragraphs numbered A, B, C, D, and E, which are hereinafter specifically set forth and considered.)

Objection is made to proposed finding 23, and with particular reference to the first three lines thereof, in that:

1. The first sentence erroneously purports to state as a finding of fact what is obviously a conclusion of law with respect to the purging of patent misuse.

2. The proposed finding improperly fails to reflect U. S. Gypsum's contention that not only the five facts, but also their cumulative effect, raise material issues of fact as to purge and evidence of purge.

3. In referring to the five facts urged by U. S. Gypsum, the proposed finding erroneously implies that these were the only facts which U. S. Gypsum claims prove purge at a time prior to May 15, 1951. They overlook, *first,* that these five facts were argued because they were already of record and that there were other facts regarding purge that could be proved at a hearing, and *second,* that they were urged not only as showing purge, but also as being sufficient to preclude as a matter of law, a conclusion of non-purge against U. S. Gypsum on the present record (See discussion, *supra,* pp. 11-17).

No facts pertaining to the issue of purge were before this court or the Supreme Court on the first appeal, and no finding on the issue of purge could have been made against U. S. Gypsum without its ever having had an opportunity to present its evidence. Everything said in that opinion of the Supreme Court (333 U. S. 364) referred only to the record then before the Court on the Government's *prima facie* case. When this court thereafter ac-

cepted defendants' proffered proof as true, and the Supreme Court, on dismissing U. S. Gypsum's appeal, did [fol. 1670] likewise (340 U. S. 76, 87), it is a denial of due process of law for this court to preclude U. S. Gypsum at this time from offering evidence on the issue of purge in addition to the facts already of record.

It is suggested that if any such finding is to be made, the first three lines of proposed finding 23 be modified to read:

> 23. In contending on the present record, and aside from the factual issues of purge raised by the 1953 petitions and answers thereto, not only that this court could find that patent misuse had been purged, but also that the court could not conclude, as a matter of law, that USG has not purged such patent misuse, USG urged five facts of record which it claims constitute evidence of purge, or raise material issues of fact as to purge, at a time prior to May 15, 1951. These are as follows:

(12a) Proposed Finding 23A.

Proposed finding 23A reads:

> "A. That USG did not fix prices, under its licenses, after July 8, 1941. This is true. However, its effect is dissipated by two considerations: first, the notices that minimum prices bulletins would be suspended included the statement that such suspension would continue 'until we decide again to exercise our right to do so'; and, second, this price fixing provision is inseparably joined with the other provisions found violative of the Act."

Additional objection is made to this proposed finding in that:

1. The statement that "this price fixing provision is inseparably joined with the other provisions found violative of the Act" is meaningless. It was the price limitation provision itself, and then only when found in industry-wide licenses, that was found violative of the Act. This

supposed reason for ignoring a decade of non-use of the minimum price provision is utterly fallacious.

[fol. 1671] 2. It improperly purports to state as a finding of fact an erroneous conclusion of law. If the minimum price limitation provision is inseparably joined with other provisions found violative of the Act, as the opinion (p. 36) states (citing the *Katzinger* and *MacGregor* cases), that is necessarily a conclusion of law and not a fact.

3. It misleadingly implies that because U. S. Gypsum retained the right to fix minimum prices, its non-use of such a provision for many years has no materiality in dissipating the illegal effects of the patent misuse.

It is suggested that if any finding is to be made as to this fact, the finding should read:

> A. That USG did not fix prices under its licenses after July 8, 1941. This is true. However, its effect is dissipated by the fact that the notices that minimum price bulletins would be suspended included the statement that such suspension would continue "until we decide again to exercise our right to do so." Such long non-use would nevertheless be material to the issue of purge, particularly as to dissipation of ill effects of the patent misuse.

(12b) Proposed Finding 23B.

Proposed finding 23B reads:

> "B. The claimed acquiescence of USG to the repudiation of the illegal agreements by Petitioners following the first appeal (333 U. S.). The record herein does not support the claim that USG 'acquiesced' in these cessations of payments by Petitioners. In connection with the form of decree to be entered after summary judgment was granted, USG not only did not claim that the licenses had been rescinded but it urged strongly that only the minimum price fixing provisions were illegal and that, in all other respects, the license agreements should be 'cancelled' only as of the date of the decree to be entered. At that time and thereafter, it made clear that it expected to have and [fol. 1672] waived no rights to have 'compensation'

for the use of its patents; however, there was no suggestion as to what form enforcement of those rights would take if not voluntarily paid. Not until USG filed its suits against Petitioners was that made clear. Such suits included Counts for recovery under the unlawful agreements. Throughout, there is no basis for this claimed 'acquiescence'."

Additional objection is made to this proposed finding in that:

1. It misconstrues the fact of purge relied on by U. S. Gypsum, which was that the issue is raised in Count III of U. S. Gypsum's suits that shortly after the March 8, 1949 opinion of the Supreme Court the licensees repudiated their licenses and that U. S. Gypsum "acquiesced in that repudiation" (USG Br., pp. 134-135). It was not contended, as the second sentence of the finding purports to state, that USG claimed to have acquiesced in the "cessation of payments by petitioners" for the use of U. S. Gypsum's patents.

2. It contains the confusing *non sequitur* that U. S. Gypsum had not acquiesced in the petitioners' repudiation of the old license agreements following the first appeal because, *first*, it did not acquiesce in their cessation of payments, and *second*, it did not waive its right to compensation for the use of its patents. Those supposed reasons confuse royalties under the old license agreements with U. S. Gypsum's claims for compensation for the use of its patents, whether or not pursuant to licenses. While U. S. Gypsum has never waived its right to compensation for the use of its patents, its actions as shown on this record were consistent with an abandonment of the old licenses shortly after the first appeal, and it should be permitted to introduce evidence on the factual issue joined.

3. It is inadequate and misleading in that it fails to [fol. 1673] describe the abandonment of the old license agreements by the co-conspirators following the first appeal and is, therefore, inconsistent with the last sentence of the proposed finding 7 to the effect that the co-conspirators elected to disregard the old license agreements after

the first appeal and to continue use of U. S. Gypsum's patents.

4. It is inconsistent with material issues of fact appearing on the face of the record with respect to which no evidence has been taken.

5. It inaccurately and unfairly places U. S. Gypsum's contention at the hearings, regarding the form of decree to be entered after summary judgment was granted, in a distorted light by completely ignoring the statements and contentions made by the other defendants with respect thereto (see *supra*, pp. 15, 40-42).

6. It improperly and erroneously implies that U. S. Gypsum was the only party urging that the old agreements be "cancelled only as of the date of the decree to be entered," *i.e.*, at a later date than others suggested. In fact, all of the forms of the decree proposed by all parties provided for formal cancellation of license agreements on or after the date of the decree.

7. It inaccurately and misleadingly fails to state that U. S. Gypsum's suits contain alternative and inconsistent counts including not only counts for recovery of royalties under the old license agreements, but also counts for the recovery of compensation for continued use of U. S. Gypsum's patents on the theory that the old licenses had been cancelled by mutual consent, and also counts for infringement.

8. In stating that U. S. Gypsum's suits included counts for recovery under the unlawful agreements, it fails to note that Counts I and II of U. S. Gypsum's suits were only for royalties for its patents that were *actually used*.

[fol. 1674] It is suggested that if any finding is to be made as to U. S. Gypsum's acquiescence in the repudiation of the illegal agreements by the licensees, the finding should read as follows:

> B. The claimed acquiescence of USG to the repudiation of the illegal agreements by petitioners following the first appeal (333 U. S.). The present record shows the following facts. After the first appeal, the licensees elected to disregard their license agreements and to continue use of the product and process patents of U. S. Gypsum without payment of any

compensation therefor. USG took no steps to enforce those license agreements during the period from 1948-1951, and its actions during that period were consistent in all respects with the licensees' abandonment of the old license agreement. But two of the alternative and inconsistent counts of its current suits seek to recover royalties under the old license agreements for the actual use of its patents by the petitioners. All forms of decree suggested by all parties after the summary judgment was granted provided for formal cancellation of the license, as of the date of the decree to be entered. USG made it clear, both at the 1949 hearing and later, that it expected to obtain and waived no rights to "compensation" for the use of its patents. Not until USG filed its suits against the petitioners was it made clear how USG would seek this compensation. Such suits include alternative and inconsistent counts for recovery of royalties for the actual use of the patents under the license agreements, *quantum meruit* counts for compensation for the use of patents after the old license agreements had been abandoned, and infringement counts. On this record it cannot be concluded whether or not USG acquiesced in the repudiation of the illegal agreements between petitioners.

[fol. 1675] (12c) Proposed Finding 23C.

Proposed finding 23C reads:

"C. The offer by USG, early in the Spring of 1949 (February or March), of new forms of licenses. Those proffered forms of licenses are not effective as acts of purge, as to our period, for two reasons. First, they were not intended to become effective until the entry of the decree because it was not until that time that the unlawful license agreements were to be 'cancelled and terminated' (Article IV, 2 of the form of decree submitted by USG on March 4, 1949). Second, they differed in several respects from the form approved by the Supreme Court (340 U. S. 76)."

Additional objection is made to this proposed finding in that:

1. It uses the confusing expression "as to our period," which has no prior reference in the proposed findings and is equivocal as to the period referred to.

2. It is misleading in purporting to explain that U. S. Gypsum's proffer of new licenses in the early spring of 1949 was not effective in showing purge because under its proffered form of decree the old licenses would have been cancelled only upon entry of the decree, and in implying that others wanted the licenses formally cancelled at an earlier date. All forms of decrees proposed by all parties to this court provided for formal cancellation of the old license agreements in the final decree, either on its effective date or later.

3. It is inadequate, inaccurate and misleading in referring to differences "in several respects" between the proffered forms of licenses and those approved by the Supreme Court and by the final decree, in implying that those differences were substantial rather than incidental, and in failing to point out that the new licenses proffered by [fol. 1676] U. S. Gypsum were free from any improper provisions as regards the matter of purge of patent misuse.

4. It improperly disregards the material issue of fact on the record that the old license agreements had been cancelled by mutual consent of the parties by repudiation by the licensees and U. S. Gypsum's acquiescence in that repudiation before the proffer of licenses by USG.

5. It is inadequate and misleading in failing to show that the new license agreements were again proffered by U. S. Gypsum at the oral hearing on June 14, 1949 and again on July 23, 1949, in a form approved by this court on November 7, 1949.

It is suggested that if any such finding is made, it should read as follows:

> C. That USG, early in the spring of 1949 (February or March), and again on June 14 and July 23, 1949, offered new forms of licenses to its licensees, including National Certain-teed, Newark and Ebsary.

This is true. These forms of proffered licenses contained no provisions objectionable under the anti-trust laws, and the forms of licenses so offered on July 23, 1949, were approved by this court upon the entry of its decree of November 7, 1949. The licenses ultimately approved in the final decree differed only in minor and insignificant respects from the licenses proffered by U. S. Gypsum in early 1949, and approved by this court on November 7, 1949. The forms of decree proposed by all parties at the June 1949 hearing would have formally cancelled the old licenses upon the entry of the decrees or shortly thereafter. The old licenses were adjudged illegal, null and void in Article IV of the November 7, 1949 decree.

(12d) Proposed Finding 23D.

Proposed finding 23D reads:

"D. USG's decision not to appeal from the decree of November 7, 1949, 'unless the Government ap- [fol. 1677] pealed, in which event it felt it would be required to appeal, in self defense.' Neither this unacted upon decision not to appeal nor an appeal by the Government in any way affects this matter of purge. The two appeals (USG and the Government) involved entirely different legal issues and situations. USG appealed from the entry of any decree 'on the ground of their right to introduce material evidence' (340 U. S. at p. 32); the Government appealed solely 'in an effort to have the provisions of the District Court decree enlarged' (340 U. S. at p. 82)."

Additional objection is made to this proposed finding in that:

1. It inaccurately and erroneously describes the fourth fact of purge relied on by U. S. Gypsum, which actually was the purging effect of this court's decree of November 7, 1949, declaring the old license agreements illegal, null and void and enjoining their performance or enforcement (USG Br. p. 135). Although this court's opinion (p. 16) and the petitioners' proposed conclusion 7, both recognize

the effectiveness of this decree by stating that its Article IV "nullified completely the license agreements listed in Article II," proposed finding 23D ignores U. S. Gypsum's fourth fact of purge and in lieu thereof states that U. S. Gypsum relied upon its decision not to appeal from the decree of November 7, 1949, "unless the Government appealed, in which event it felt it would be required to appeal in self defense." Actually, the decision regarding an appeal was only an incidental point raised to refute the suggestion (Cert. Br. p. 53) that U. S. Gypsum could not rely on the November 7, 1949, decree as constituting purge because it appealed from that decree. Moreover, the proposed finding misleadingly quotes a portion of a sentence of U. S. Gypsum's contention in such manner as to imply that its fourth fact had to do solely with its decision not to appeal (see *supra*, p. 13).

[fol. 1678] 2. It erroneously states that the USG and Government appeals involved entirely different legal issues and "situations," overlooking that the issue on U. S. Gypsum's appeal was fundamentally related to the issue on the Government's appeal and that both involved the same decree, and the scope of its adjudication (340 U. S. 76, 81-88).

3. It fails to point out that U. S. Gypsum's appeal was dismissed on May 29, 1950 (339 U. S. 959).

4. It improperly disregards a material issue of fact on this record whether U. S. Gypsum had decided not to appeal and the reasons why it finally did appeal from the November 7, 1949, decree.

It is suggested that if any such finding is made, it should read as follows:

> D. The decree of November 7, 1949, declaring the old license agreements illegal, null and void. On November 7, 1949, this court's decree was entered adjudicating the licenses to be illegal, null and void and enjoining their enforcement. U. S. Gypsum had decided to accept this decree and not to appeal, but when the Government appealed for enlarged relief on January 6, 1950, U. S. Gypsum also appealed and questioned the validity of the adjudication of law violation, believing such action a necessity in resist-

ing the Government's appeal for enlarged relief. U. S. Gypsum's appeal was subsequently dismissed by the Supreme Court (339 U. S. 959) which affirmed Article III of the decree of November 7, 1949, and enjoined the corporate defendants from enforcing the price fixing provisions of the licenses pending further order of the court.

(12e) Proposed Finding 23E.

Proposed finding 23E reads:

"E. The fact that the Supreme Court (339 U. S. 960) enjoined USG, on May 29, 1950, from 'enforcing [fol. 1679] in any manner whatsoever' the price provisions of the license agreements. The USG suits now pending show conclusively, however, that even now it is striving to enforce the royalty provisions of the illegal patent license agreements."

Additional objection is made to this proposed finding in that:

1. It inadequately and inaccurately describes the Supreme Court's decision and order in 339 U. S. 960 as enjoining only U. S. Gypsum. It enjoined "the corporate defendants," including the petitioners as well as U. S. Gypsum.

2. It contains the *non sequitur* that the Supreme Court's order of May 29, 1950, enjoining the corporate defendants from enforcing the *price provisions* of the old license agreements, had no effect on purge because supposedly U. S. Gypsum's suits seek to enforce "the *royalty provisions*" of the old license agreements. This *non sequitur* is urged despite the fact that no one has ever contended that U. S. Gypsum's suits violated the Supreme Court's order, or, in view of its earlier dissolution, could have violated it.

3. It is misleading and inaccurate in stating that U. S. Gypsum's suits now pending are to enforce "the royalty provisions" of the old license agreements. Those suits, which state alternative and inconsistent counts, involve no counts to enforce strictly the royalty provisions of the

old license agreements (which required royalty to be paid on *all* gypsum board made whether or not patented or made by use of the patents). All counts (including I and II) in the pending suits seek only compensation for the actual use of the patents.

4. It improperly purports to imply as a finding of fact an erroneous conclusion of law that U. S. Gypsum is misusing its patents, as a matter of law, by the mere bringing [fol. 1680] of money actions to recover compensation for their use. (See *supra*, pp. 2-10.)

5. It fails to point out that the Supreme Court, on remand of the Government's appeal, extended its injunction order of May 29, 1950 (339 U. S. 960) to be "continued in effect until the entry of a final decree" (See Op. p. 3, Proposed Finding 19).

It is suggested that if any such finding is made, it should be modified to read as follows:

> E. The Supreme Court order of May 29, 1950. The Supreme Court (339 U. S. 960) on May 29, 1950, enjoined the corporate defendants, including U. S. Gypsum, National, Certain-teed, Newark and Ebsary from "enforcing in any manner whatsoever" the price provisions of the license agreements. This order was later continued until the date of the entry of the final decree. No claim is here made that it was not fully complied with by the corporate defendants, including U. S. Gypsum.

(13) Proposed Finding 24.

Proposed finding 24 purports to describe the U. S. Gypsum suits against National, Certain-teed, Ebsary and Newark. The third sentence reads:

> "Each of these suits was based on alternative claims for royalties or for the reasonable value of the use of certain of its patents or for damages because of infringement."

Objection is made to the third sentence of the proposed finding in that it is inadequate in failing to show that the

claims asserted in the various counts were "alternative and inconsistent," as provided for in Rule 8 (e) (2) of the Federal Rules of Civil Procedure.

It is suggested that the third sentence of proposed finding 24 be modified by inserting the words "and inconsistent" after the word "alternative."

[fol. 1681] (14) Proposed Finding 25.

Proposed finding 25 reads:

> "In these suits USG seeks judgment against National for $1,600,000; against Certain-teed for $650,000; against Ebsary for $245,000; against Newark for $285,000; and interest and costs of the suit against each Petitioner."

Objection is made to this proposed finding in that:

1. It erroneously states that U. S. Gypsum seeks judgment against Ebsary for $245,000, whereas in fact the claim was $100,000 on Counts I and II, and in the alternative, $160,000 on Counts III, IV and V, and a claim for $85,000 on Count VI.
2. It erroneously states that U. S. Gypsum seeks judgment against Newark for $285,000, whereas in fact the claim was $120,000 on Counts I and II, and, in the alternative, $185,000 on Counts III, IV and V, and a claim for $100,000 on Count VI.
3. It erroneously states that U. S. Gypsum seeks interest against each petitioner, whereas the complaints seek interest only on Counts I, II, III and IV and not on Counts V and VI.

It is suggested the proposed finding be modified to read as follows:

> 25. In these suits USG seeks judgment against National for $1,600,000; against Certain-teed for $650,000; against Ebsary for $100,000 on Counts I and II and in the alternative $160,000 on Counts III, IV and V, and $85,000 on Count VI; against Newark for $120,000 on Counts I and II and in the alternative $185,000 on Counts III, IV and V, and $100,000 on

Count VI; and interest (except as to Counts V and VI) and costs of suit against each defendant.

[fol. 1682] (15) Proposed Finding 26.

Proposed finding 26 reads:

"USG also asserted claims against the Celotex Corporation and against Kaiser Gypsum Company for the alleged use of its licensed patents for the period from February 1 or March 1, 1948 to May 15, 1951."

Objection is made to this proposed finding in that:

It purports to describe irrelevant and immaterial facts concerning U. S. Gypsum's claims against two companies one of whom has no concern of any kind with Civil Action 8017, and neither of whom is a party to any of the petitions presently before the court.

It is suggested that this proposed finding be omitted.

(16) Proposed Finding 28.

Proposed finding 28 reads:

"The first two counts of all four petitions are directly based on the license agreements set forth in Article II of the decree of November 7, 1949."

Objection is made to this proposed finding in that:

1. It misleadingly fails to refer to the facts, *first*, that Count I is only for royalties on gypsum board made by the actual use of one or more of U. S. Gypsum's patents (see paragraphs 6 and 7, Count I), and not on all gypsum board manufactured, whether or not patented or made with use of the patents, as provided in the old license agreements, and *second*, that Count II is not based directly on the old license agreements but rather upon a modified agreement reached after February 1, 1948, by and between U. S. Gypsum and each of its former licensees (see paragraph 3, Count II).

2. It inaccurately implies that Counts I and II of U. S. [fol. 1683] Gypsum's suits are connected in some manner with the decree of November 7, 1949.

It is suggested that the proposed finding be modified to read as follows:

> 28. Counts I and II of each of U. S. Gypsum's suits seek to recover royalties on gypsum board embodying or made by the use of inventions disclosed in one or more of U. S. Gypsum's patents, and not on all gypsum board whether or not patented or made with the use of the patents as provided in the old license agreements. However, with that qualification, in each of the four suits Count I does seek royalty under a license agreement declared illegal, null and void in the November 7, 1949 decree and the final decree, and Count II of each suit seeks to recover royalties under the agreement referred to in Count I, as modified by agreement of the parties after February 1, 1948.

(17) Proposed Finding 29.

Proposed finding 29 reads:

> "Count III of the USG petitions is a common law action of *indebitatus assumpsit* based on a pleaded express contract. That contract and the relief sought are so stated and designed to bring about the identical recovery that would be realized had the actions been for recovery upon the royalties provided in the illegal agreements."

Objection is made to this proposed finding in that:

1. It erroneously implies that U. S. Gypsum is attempting to recover indirectly under Count III what the court has held could not be recovered under Counts I and II.

2. It erroneously overlooks the fact that Count III in each of the pending U. S. Gypsum suits expressly alleges that the defendant in early 1948 (February 1 as to National and Newark, March 1 as to Ebsary, and April 1 as to Certain-teed) "repudiated" its old license agree- [fol. 1684] ments, "discontinued" the payment of all royalties payable thereunder, and "refused to be bound" by any provision thereof; that U. S. Gypsum "acquiesced in such repudiation"; that "thereafter each of the parties

thereto treated the license agreement as rescinded and no action was subsequently taken by either of them to comply with or to enforce any of the provisions thereof or to require the other to perform"; that the defendant nevertheless continued to use U. S. Gypsum's patent or patents and promised to pay the reasonable value of the use thereof. (See paragraph 5, Count III of National, Ebsary and Certain-teed complaints and paragraph 6, Count III, Newark complaint.) The use of the patents for which compensation is sought in Count III, then, is for a period subsequent to the repudiation of the old license contracts and for which there could have been no claim for recovery under those contracts.

3. It is erroneous in failing to recognize U. S. Gypsum's repeated statements to this court (6/9/53 hearing, Tr. 25; 1/13/54 hearing, Tr. 142; USG Br. p. 85) that Count III was based upon the use of U. S. Gypsum's patents, *after the rescission of the old license agreements* and under circumstances from which the law would imply a promise to pay reasonable compensation for the use of the patents, and was therefore another count for a *quantum meruit* recovery. This is the customary way in which to plead a contract implied in law.

4. It erroneously, inaccurately and misleadingly states that the supposed "pleaded express" contract and relief sought are so stated and designed to bring about identical recovery that would be realized had the actions been for recovery upon royalties provided in the illegal agreements, in that:

(a) As shown (see proposed finding 25, *supra*, p. 63), the *ad damnum* in the Newark suit is $185,000 [fol. 1685] on Count III but only $120,000 on Counts I and II, and in the Ebsary suit $160,000 on Count III but only $100,000 on Counts I and II; and

(b) The significance attributed to the similarity in *ad damnum* clauses in the other suits overlooks recognized legal principles and that the same quantities are involved. (See *supra*, pp. 8-9.)

5. It erroneously fails to recognize that each suit states separate claims that are alternative and inconsistent. See discussion *supra*, pp. 6-8.

It is suggested that proposed finding 29 be modified to read as follows:

> 29. Count III of the USG complaints is a common law action of *indebitatus assumpsit* seeking recovery of the reasonable value for the use of USG's patents on the pleaded facts that *first*, that the licensee had "repudiated" its license, discontinued payment of royalty thereunder and refused to be bound by any provisions thereof, that USG had acquiesced in such repudiation, and that both parties thereafter treated the old license agreement as rescinded, and thereafter neither complied with or enforced it; and *second*, that the licensee nevertheless continued to use USG's patent or patents and promised to pay to USG the reasonable value of the use thereof. The relief sought in Count III in the National and Certain-teed suits is the same as under Counts I and II, because the quantity of gypsum board involved was the same and a promise will not be implied to pay more compensation than had been agreed to by arm's length negotiations for the use of the same patent or patents prior thereto (and also subsequently). The relief sought in Count III of the Ebsary and Newark suits is substantially more than under Counts I and II because of the different periods of time involved.

[fol. 1686] (18) Proposed Finding 30.

Proposed finding 30 reads:

> "Count IV of the USG complaints is for *quantum meruit* covering the use of the patents."

Objection is made to this proposed finding as inadequate and inaccurate in that:

It fails to describe Count IV as a common law common count for recovery of the reasonable value for the use of U. S. Gypsum's patent or patents.

It is suggested that proposed finding 30 be modified to read as follows:

> 30. Count IV of the USG complaints is for a common law common count for *quantum meruit* recovery of the reasonable value for the use of USG's patents.

(19) Proposed Finding 32.

Proposed finding 32 reads:

> "The amounts sought in Counts III-V of these suits for the period prior to the Final Decree is precisely the same as the amounts sought as royalties in Counts I and II, which are the amounts provided for and measured by the old unlawful license agreements."

Objection is made to this proposed finding in that:

1. It erroneously states that the amounts sought in Counts III-V of these suits "is precisely the same as the amounts sought as royalties in Counts I and II." As shown in the Ebsary complaint $160,000 is sought in Counts III-V but only $100,000 in Counts I and II, and in the Newark complaint $185,000 is sought in Counts III-V but only $120,000 in Counts I and II. (See objection to proposed finding 25, *supra*.)

2. It erroneously and misleadingly fails to point out the [fol. 1687] reasons why the amounts sought in Counts III-V of the National and Certain-teed complaints are precisely the same as in Counts I and II, *i. e., first*, because of the established legal principle that reasonable compensation for the use of a patent cannot exceed the royalty rate for use of the same patent established in arm's length negotiations, both before and after the period in question here, and *second*, because the same quantities of gypsum board were involved in each of the alternative and inconsistent counts in each suit (see discussion, *supra*, pp. 8-9).

3. It erroneously states that the amounts sought as royalties in Counts I and II "are the amounts provided for and measured by the old unlawful license agreements." Neither Counts I nor II seek the royalty "measured" by the old license agreement—Count I seeks royalties for patents actually used while the old license required royalty

on all gypsum board made and sold whether or not patented or made with use of the patents, Count II seeks royalties for actual use of the patents pursuant to a modification of the old license agreements as agreed to by the parties thereto on or after February 1, 1948. (See objection to proposed finding 28, *supra*.)

It is suggested that proposed finding 32 be deleted.

(20) Proposed Findings 33 and 34.

Proposed findings 33 and 34 read:

> "33. The patent alleged to be infringed in the USG suits against National Gypsum Company and Certain-Teed Products Corporation is patent Roos No. 2,017,-022. The USG suits against Newark Plaster Company and Ebsary Gypsum Company allege in addition infringement of patents Roos Nos. 2,079,338, 2,080,009 and 2,044,401 for the period prior to and after May 15, 1951. All of the foregoing patents [fol. 1688] were licensed by USG under one or more of the patent licenses defined and enumerated in paragraph 5 of Article II of the Final Decree of May 15, 1951.
>
> "34. Application for patent No. 2,044,401 was filed by Roos on August 15, 1929 and later assigned to USG, to which the patent was issued on June 16, 1936. This patent related to the use of dextrinized starch in gypsum board core composition and method of manufacturing same. This patent was an improvement patent and, as such, was subject to inclusion under paragraph 18 of the licenses to Newark and Ebsary. (See transcript in the Supreme Court, October Term, 1947, No. 13, pp. 4416 and 4488.)"

Objection is made to these proposed findings in that:

1. The last sentence of finding 33 erroneously states that all four of the patents there mentioned, including Patent No. 2,044,401, were licensed by U. S. Gypsum under one or more of the old license agreements, and the last sentence of finding 34 also erroneously states that Patent No. 2,044,401, as an improvement patent, was included in

pargraph 18 of the Newark and Ebsary licenses. That patent was not specifically licensed by U. S. Gypsum in any of the old license agreements described in paragraph 5 of Article II of the final decree. While paragraph 18 of the Newark and Ebsary licenses did provide that improvement patents meeting certain criteria were to come within those licenses, whether or not Patent No. 2,044,401 came within paragraph 18 could not possibly have been determined by the court without it taking evidence showing that the conditions of paragraph 18 either had or had not been met.

2. Proposed finding 34 erroneously and improperly described the patent as relating "to the use of dextrinized starch."

It is suggested that the last sentence of proposed finding 33 be modified to read:

> [fol. 1689] Patent Nos. 2,017,022, 2,079,338 and 2,080,009 were licensed by USG under one or more of the patent licenses defined and enumerated in paragraph 5 of Article II of the Final Decree of May 15, 1951.

and that proposed finding 34 be modified to read:

> Application for patent No. 2,044,401 was filed by Roos on August 15, 1929 and later assigned to USG, to which the patent was issued on June 16, 1936. This patent related to the use of partially dextrinized starch or a partially dextrinized farinaceous, gelable adhesive in gypsum board core composition and method of manufacturing such board. This patent was an improvement patent and as such was subject to inclusion under paragraph 18 of the licenses to Newark and Ebsary (see transcript in the Supreme Court, October Term, 1947, No. 13, pp. 4416 and 4488), but whether or not it was so included could not be determined without the taking of further evidence.

(21) Proposed Finding 38.

Proposed finding 38 reads:

"The United States has filed a petition to enjoin USG from asserting any claim or suit 'in whole or in part on any of the license agreements adjudged illegal, null and void by the final decree of this Court entered on May 15, 1951, or on any provision thereof.' As to any claims based on such license agreements, the United States alleges that such 'are barred by, and constitute an attempt to defeat, said decree.' As to any 'alternative claims' set forth in such four suits, the United States 'takes no position' as to whether or not they are barred by the Final Decree."

Objection is made to this proposed finding in that:

The third sentence inadequately describes the position of the United States in its petition with respect to the alternative and inconsistent claims.

It is suggested that the third sentence of proposed finding 38 be modified to read as follows:

[fol. 1690] As to any "alternative claims" set forth in such four suits, the United States "takes no position as to whether such alternative claims are barred by this court's final decree of May 15, 1951, or as to whether this court should enter an order enjoining USG from prosecuting such alternative claims."

B. Petitioners' Proposed Conclusions of Law.

(1) Proposed Conclusions 1-6 (Jurisdiction).

Proposed conclusion 1 reads:

"Defendant petitioners are parties to the original Anti-Trust suit asserting rights under the Final Decree. Where a decree specifically or by fair implication accords rights to parties thereto, the parties have a standing to enforce such rights in a manner consonant with the underlying purposes of the decree. Petitioners have standing to apply to this Court for enforcement, construction or the carrying out of the Final Decree."

Proposed conclusion 2 is that this court has jurisdiction because of the express reservation contained in Article X of the final decree.

Proposed conclusion 3 is that, in addition to the expressly reserved jurisdiction, this court has jurisdiction to entertain and determine the issues presented by petitioners because of the inherent power of a court of equity to compel obedience to its decrees.

Proposed conclusion 4 is that this court has jurisdiction to entertain and determine the issues presented by petitioners because of its jurisdiction to implement the final decree to effectuate its basic purposes, and that one method to do that is by petition in the original action.

Proposed conclusion 5 reads:

> "This Court has jurisdiction to entertain and determine the issues presented by Petitioners based on the [fol. 1691] long-established discretionary jurisdiction of an equity court to prevent multiplicity of actions. Such jurisdiction is present here because of the four present suits by USG and also the claims against Celotex and Kaiser. The matter of possible misconstruction or diversity of construction of the Final Decree is a reason for taking jurisdiction where there is a claimed multiplicity of actions, each involving the meaning and application of the Decree and affecting the complete effectiveness of the Decree."

Proposed conclusion 6 is that the fact that petitioners might urge the final decree as a defense in the USG suits does not affect this court's jurisdiction; it is relevant merely on the question whether or not the jurisdiction should be exercised.

Objection is made to the proposed conclusions 1 through 6 for the reasons that they erroneously state the law applicable to the pending petitions and answers thereto and erroneously conclude that this court has jurisdiction to consider and determine the issues presented by such petitions and answers (see USG Br. pp. 38-68). In addition thereto, the following specific objections are made:

1. Proposed conclusion 1 is inaccurate and misleading in that it attempts, by selecting sentences from different

parts of the opinion, to state a conclusion, under the heading of jurisdiction, that the defendant petitioners were given substantive rights under the original decree. The first and third sentences of Proposed Conclusion 1 are taken from that portion of the opinion dealing with the matter of jurisdiction reserved by Article X of the final decree. The second sentence is a partial and inaccurate statement taken from the court's discussion of jurisdicdiction principles generally applicable to antitrust actions, in that it fails to show that the statement selected was made as an exception to the basic principle that the [fol. 1692] Attorney General is the representative of the "public interest" in antitrust cases brought by the Government.

2. Proposed conclusion 5 erroneously states that jurisdiction to prevent multiplicity of actions is present here because of the four USG suits "and also the claims against Celotex and Kaiser." No suits have in fact been brought against Celotex and Kaiser, and neither of them is a party to this proceeding. No reference should be made to either of them.

It is suggested that there is no occasion for the court to do more than to state the simple conclusion of law that:

> This court has jurisdiction of the parties and of the subject matter involved in the petitions pending before it.

(2) Proposed Conclusion 7 (Scope of Article IV).

Proposed conclusion 7 reads:

> "Article IV of the decree of November 7, 1949 nullified completely the license agreements listed in Article II. This nullification did not create a status. It simply declared a status which had existed since the granting of the patent licenses. Article IV passed into the Final Decree unchanged. Accordingly USG is enjoined from further prosecuting the first two Counts in each of the four suits brought by it against the Petitioners, since these Counts clearly violate the express provisions of Article IV."

Objection is made to proposed conclusion 7 in that:

1. It incorrectly states the law with respect to the effect of Article IV (see USG Br. pp. 68-86) and erroneously concludes that Counts I and II in each of the pending suits brought by U. S. Gypsum clearly violate the express provisions of Article IV (USG Br. pp. 68-86).

2. It erroneously concludes that U. S. Gypsum should be enjoined from further prosecuting Counts I and II. [fol. 1693] 3. It is inadequate, inaccurate and misleading in failing to state fully the court's conclusion of law (p. 25) that Article IV "did not expressly or impliedly cover the character of suits now brought by USG for infringement or for *indebitatus assumpsit* or for *quantum meruit*" and consequently did not afford a basis for enjoining prosecution of Counts III, IV, V and VI.

It is suggested that if proposed conclusion 7 is to be included, it should be supplemented by the following three additional sentences:

> Article IV of the final decree did not expressly or impliedly cover the character of suits now brought by USG for infringement or for *indebtitatus assumpsit* or for *quantum meruit*. It neither allowed nor forbade such. It does not furnish a firm ground or basis for enjoining further prosecution of Counts III, IV, V and VI of such suits.

(3) Proposed Conclusions 8-10 (Modification).

Proposed conclusion 8 reads:

> "The purpose and permissible function of an order for modification of an anti-trust decree is to cover something within the broad purposes of the decree but which, for some proper reason, was not included in the existing decree. Almost always such modifications are concerned with remedies. Usually they concern situations which were either overlooked at the time the decree was entered or which have arisen or developed after the decree."

Proposed conclusion 9 reads:

> "The power to make any proper modification of the Final Decree is expressly reserved in Article X of the Decree. Article X performed the function of expressly reserving jurisdiction to take further action if experience thereafter should make such necessary or advisable fully to effectuate the purposes of destroying [fol. 1694] the monopoly and the conspiracy and denying the fruits thereof. The Court has power to make any modification which will, 'so far as practicable, cure the ill effects of the illegal conducts * * *.' (340 U. S. at pp. 88-89)."

Proposed conclusion 10 reads:

> "In addition to such expressly reserved power, this Court as a court of equity has inherent power to modify its decrees so as to make them fully effective."

Objection is made to proposed conclusions 8, 9 and 10, for the reasons that they erroneously state the law applicable to the pending positions and answers thereto, and erroneously conclude that this court has the power to modify the final decree of May 15, 1951 as requested in the pending petitions. In addition thereto, the following specific objections are made:

1. Proposed conclusion 8 is irrelevant and improper in that it consists merely of selected sentences from a general statement in the opinion as to the differences between implementation and modification of a decree which are not, and were not intended to be, stated as propositions of law. In fact, the second and third sentences are statements of fact rather than law.

2. Proposed conclusion 9 is inaccurate, improper, confusing and misleading in that:

> (a) It consists of partial statements selected out of context from three different parts of the opinion, each dealing with different matters.
>
> (b) The first sentence is deficient in failing to disclose any standards as to what would be a "proper" modification, and omits any reference either to the

tests that this court lays down in its opinion or that are specifically written into Article X of the final decree, *i. e.*, to construe, carry out and enforce the decree (Op. p. 23).

(c) The second sentence is misleading in being [fol. 1695] taken out of context in the opinion. This statement was made in connection with the further statements that the violations of the Act are declared in Article III which "is the heart of the final decree" and that the other articles concern remedies and methods which the Supreme Court and this court then thought sufficient to cure the unlawful conspiracy and monopoly. Article III found law violation in the concerted action of the defendant companies, the remedies in the other articles being directed to prevention of such law violation in the future. Neither Article III nor the remedies dealt with the "rights" which co-conspirators are now asserting against U. S. Gypsum. The Supreme Court quotation, which this court's opinion was paraphrasing in referring to "denying the fruits thereof," had actually stated that "the *conspirators* should so far as practicable be denied the future benefits from their forbidden conduct." (Emphasis ours.) This clearly was referring to a protection of the public interest, not to giving one or a group of co-conspirators a windfall as against another.

(d) The third sentence is inaccurate, improper and misleading in that it misquotes the Supreme Court by using language of that Court as applying to a modification of the decree, when in fact it dealt with drafting original decrees. Moreover, it stops the Supreme Court quotation in the middle of a sentence and omits words which characterize the import of the Court's statement, namely, that this should be done to assure the "public" freedom from any continuance of the ill effects of the illegal conduct. Thus the full sentence reads:

> "A trial court upon a finding of a conspiracy in restraint of trade and a monopoly has the duty to compel action by the conspirators that will, so

far as practicable, cure the ill effects of the illegal conduct, and assure the public freedom from its continuance." (340 U. S. 88.)

This statement of the Suppreme Court is as inapplicable to the requested modification of this decree as is the doctrine of misuse of patents (also designed for [fol. 1696] the protection of the public) to co-conspirators' attempts to avoid payment for their use of U. S. Gypsum's patents.

3. Proposed conclusion 10 is inadequate and improper in failing to include the fundamental limitation that "a decree may not be enlarged, beyond its intended proper scope, by the medium of modification" (Op. p. 24).

It is suggested that if any such conclusions of law are to be stated they should be confined to the following:

Article X of the final decree of May 15, 1951, expressly reserved jurisdiction in this court to enable any of the parties to the decree to apply to the court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of the decree, and (2) for the enforcement of compliance therewith. Such reservation of jurisdiction was sufficient to enable the court to take such further action as might be necessary or advisable to effectuate the purposes of the decree.

In addition to such expressly reserved power, this court, as a court of equity, has inherent power to modify its decree so as to make it fully effective, provided, however, that the decree may not be enlarged beyond its intended proper scope by the medium of modification.

(4) Proposed Conclusion 11 (Modification)

Proposed conclusion 11 reads:

"The course of conduct of USG, as clearly shown by the proceedings of record in the Anti-Trust case, establish that USG did not purge itself of its patent

misuse at any time prior to May 15, 1951. The five acts claimed by USG to constitute acts of purge prior to May 15, 1951 do not constitute purge."

[fol. 1697] Objection is made to this proposed conclusion in that:

1. It erroneously concludes, without the taking of evidence on this factual issue, that U. S. Gypsum did not purge itself of its patent misuse at any time prior to May 15, 1951.

2. It erroneously concludes that the five Acts "claimed by USG to constitute acts of purge prior to May 15, 1951" do not constitute purge. This not only misconstrues USG's position but also misconstrues the acts relied on.

These errors are discussed, *supra*, pp. 11-17, 50-62.

It is suggested that this proposed conclusion be deleted.

(5) Proposed Conclusion 12 (Modification).

Proposed conclusion 12 reads:

"In view of the misuse by USG of its patents as a matter of law on the facts here, which has not been purged, all claims of USG are barred, and USG should be enjoined from further prosecutions of all Counts of these actions."

Objection is made to this proposed conclusion in that:

1. It erroneously concludes that USG's patent misuse has not been purged.

2. It erroneously concludes that all claims of USG are barred and that it should be enjoined from further prosecution of all counts of "these actions."

3. It is inconsistent with the court's conclusion (Op. p. 22) that the Newark and Ebsary counts for infringement since the date of the final decree should not be enjoined.

These errors are discussed, *supra*, pp. 11-17, 50-62.

It is suggested that this proposed conclusion be deleted.

[fol. 1698] (6) Proposed Conclusion 13 (Modification)

Proposed conclusion 13 reads:

> "The course of conduct of USG, as clearly shown by the proceedings of record in the Anti-Trust case and in the suits by USG, must be construed as meaning that USG has continued after May 15, 1951 to misuse its patents by seeking recovery, directly and indirectly, on the illegal license agreements up to this time. The attempt by USG to enforce the royalty provisions of the illegal patent license agreements is clear misuse of its patents; such misuse yet continues; and to allow prosecution of these suits, would weaken the effectiveness of the Final Decree."

Objection is made to this proposed conclusion that:

1. It erroneously concludes that U. S. Gypsum has continued after May 15 to misuse its patents by seeking recovery, directly and indirectly, on the illegal license agreements up to this time.
2. It erroneously concludes that the attempt by U. S. Gypsum to enforce the royalty provisions of the illegal patent license agreements is clear misuse of its patents.
3. It erroneously concludes that the misuse of U. S. Gypsum's patents yet continues.
4. It erroneously concludes that to allow prosecution of these suits would weaken the effectiveness of the final decree.

These errors are discussed, *supra,* pp. 2-11.

It is suggested that this proposed conclusion be deleted.

(7) Proposed Conclusion 14 (Modification).

Proposed conclusion 14 reads:

> "Count III of the USG petitions, for *indebitatus assumpsit,* is but a left-handed, indirect method for [fol. 1699] recovering the royalties provided in the illegal license agreements. The Decree should be modified to enjoin prosecution of Count III of the USG petitions."

Objection is made to this proposed conclusion in that:

1. It erroneously concludes that Count III of the USG "petitions" is but a left-handed, indirect method for recovering the royalities provided in the illegal license agreements. Actually, Count III seeks recovery of reasonable compensation for use of the patents after the illegal contracts were rescinded by the parties and therefore for a period on which there could not possibly have been a recovery under the old license agreements.

2. The decree erroneously concludes that the final decree should be modified to enjoin prosecution of Count III.

These errors are discussed, *supra,* pp. 10-11, 17, 65-69.

It is suggested that this proposed conclusion be deleted.

(8) Proposed Conclusion 15 (Modification).

Proposed conclusion 15 reads:

> "Count IV of the USG petitions, the *quantum meruit* Counts, are enjoined on the basis of preventing recovery in a multiplicity of suits wherein the misuse of the patents which were involved in this Anti-Trust suit is shown, as a matter of law, to exist and not have been purged."

Objection is made to this proposed conclusion in that:

1. It erroneously enjoins the further prosecution of Count IV, a *quantum meruit* count, of USG's "petitions."

2. It would erroneously enjoin prosecution of Count IV on the basis of preventing recovery in a multiplicity of suits.

3. It erroneously concludes that as a matter of law misuse of patents is shown here to exist and not to have been purged.

[fol. 1700] These errors are discussed, *supra,* pp. 10-11, 17.

It is suggested that this proposed conclusion be deleted.

(9) Proposed Conclusion 16 (Modification).

Proposed conclusion 16 reads:

> "Both because of the practical and legal situation in this case, and, also, the teaching in the *Hartford-Empire* case, the Final Decree should be modified to cover prohibition from prosecuting the USG suits insofar as they are based on patent infringement during the period covered by those suits."

Objection is made to this proposed conclusion in that:

1. It erroneously concludes that the "practical and legal situation in this case" compels a modification of the final decree to prohibit the prosecution of USG's suits in so far as they are based on patent infringement during the period covered by those suits.
2. It erroneously concludes that such a modification of the decree is also compelled by the teaching in the *Hartford-Empire* case. The teaching in that case compels a dismissal of the petitions, so as to permit U. S. Gypsum to recover reasonable compensation for the use of its patents *pendente lite*, as was permitted in *Hartford-Empire*.
3. It erroneously concludes that the final decree should be modified to prohibit prosecution of USG's suits in so far as they are based on patent infringement during the period covered by those suits.
4. It would erroneously prohibit prosecution of the patent infringement suits against Newark and Ebsary during the period subsequent to May 15, 1951, which is contrary to this court's opinion (p. 22).

These errors are discussed, *supra*, pp. 17-22.

It is suggested that this proposed conclusion be delated.

[fol. 1701] C. Petitioners' Proposed Decree.

Petitioners have submitted a proposed decree which, after a brief recital of the filing of the petitions and answers thereto, the court's consideration thereof and of the oral arguments and briefs submitted, and the rendering of the majority and dissenting opinions on July 6, 1954, would order, adjudge and decree, (1) that the court has jurisdiction of the subject matter of the petitions,

and (2) that the final decree of this court of May 15, 1951 be modified by:

(a) adding to Article II a paragraph 6 defining "misused patents".

(b) adding to Article V two additional paragraphs: one (marked B) ordering U. S. Gypsum to dismiss with prejudice its pending actions against National, Certain-teed, Newark, and Ebsary; and another (marked C) enjoining and restraining U. S. Gypsum from instituting, threatening or continuing any action against any person, firm or corporation for payment for use of its misused patents alleged to have occurred prior to May 15, 1951; and

(c) adding to Article IX a sentence assessing costs against U. S. Gypsum.

Objection is made to the proposed decree in that the suggested amendment of the final decree to give the relief sought by the defendant petitioners is erroneous, improper and contrary to law for the reasons set forth and discussed in Part I of this memorandum, and for the specific objections set forth and discussed in Part II hereof with respect to the proposed findings and conclusions.

In addition thereto the following specific objections are made:

1. There is no need for an additional paragraph defining "misused patents." There has been no prior finding of this court against U. S. Gypsum that it has misused its patents, but on the contrary, in holding [fol. 1702] that there was law violation by the concerted action of the defendant companies through the fixed-price licenses, this court, and the Supreme Court, accepted as true the defendants' proffered facts, which are inconsistent with any specific finding of patent misuse against U. S. Gypsum. It is error for this court, without taking any evidence, to make findings inconsistent with the prior determinations of this court.

2. The proposed amendments to Article V of the final decree, are erroneous, improper, and contrary to law, in enjoining U. S. Gypsum from seeking a reasonable compensation for actual use of its patents, not

only by the defendant petitioners, but also by any other person, firm or corporation, prior to May 15, 1951.

3. The proposed amendments to Article V are erroneous, improper, and contrary to law and to this court's opinion, in enjoining U. S. Gypsum from the prosecution of its pending suits against Newark and Ebsary as to alleged infringement of its patents during the period subsequent to May 15, 1951.

4. If this court construes Article IV of the final decree as prohibiting Counts I and II of U. S. Gypsum's pending suits, an amendment is not needed to enjoin prosecution of those counts: at most, there would be added to Article IV the words "and the parties thereto are enjoined and restrained from the further performance or enforcement of any of the provisions of said patent licenses."

5. The proposed amendment of Article IX to assess against U. S. Gypsum all costs arising out of the proceedings instituted by petitioners for a construction and amendment of the final decree, to their great financial benefit, is unfair and inequitable.

[fol. 1703] CONCLUSION.

The foregoing objections and suggestions raise substantial questions of law and fact as to the correctness of this court's opinion of July 6, 1954, and the proposed findings of fact, conclusions of law, and decree based on it. Before the ruling is formalized by the entry of any such findings, conclusions or decree, U. S. Gypsum respectfully urges the court to reconsider its opinion in the light of the objections and suggestions herein stated, and to that end suggests that the matter be set down for further argument at a date convenient to the court.

Respectfully submitted, Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., Attorneys for United States Gypsum Company.

Cravath, Swaine & Moore, 15 Broad Street, New York 5, New York, MacLeish, Spray, Price & Underwood, 134 South LaSalle Street, Chicago 3, Illinois, Macleay & Lynch, 1625 K. Street, N. W., Washington 6, D. C.

[fol. 1704] UNITED STATES DISTRICT COURT
DISTRICT OF COLUMBIA

[Title Omitted]

NATIONAL GYPSUM COMPANY'S MEMORANDUM IN ANSWER TO UNITED STATES GYPSUM COMPANY'S OBJECTIONS AND SUGGESTIONS WITH RESPECT TO PETITIONERS' PROPOSED FINDINGS OF FACT, CONCLUSIONS OF LAW AND DECREE—Filed October 11, 1954

This memorandum is filed in answer to U. S. Gypsum's Memorandum, filed September 17, 1954, of objections and suggestions with respect to the findings, conclusions and decree proposed by petitioners National and Certain-Teed on August 16, 1954.

The Court's opinion, filed July 6, 1954, concluded: "Petitioners are granted thirty days from the filing of this opinion, to serve upon opposing counsel and to file with this Court, suggested form of decree and form of Conclusions and Findings." Thereafter, upon consent of petitioners National and United States of America, an order was entered on July 27, 1954, that "the respondent United States Gypsum Company shall have to and including September 17, 1954 within which to serve upon petitioners' counsel and file with the Court objections or suggestions [fol. 1705] with respect to the form or forms of Decree and form or forms of Conclusions and Findings so served upon its counsel by the petitioners or any of them".

USG's Memorandum, filed on September 17th, goes beyond the authority of this order; in addition to setting forth objections and suggestions regarding the form of the proposed findings, conclusions and decree, it reargues issues determined by the Court's opinion of July 6th.

In this memorandum we shall briefly discuss USG's objections and suggestions with respect to the form of petitioners' proposed findings, conclusions and decree, in that order. No comment, however, will be made with respect to those objections and suggestions which go to substantive questions already decided by this Court.

Findings

Petitioners proposed 38 findings of fact. Almost all are in the language of the Court's opinion. They are arranged to set forth chronologically, insofar as possible, the events in this suit bearing upon the issues raised by the petitions.

PF* 1 to 8 cover the period in this suit through the Supreme Court's opinion in 333 U. S. PF 9 to 22 carry the history of the litigation from that point to the entry of the Final Decree of May 15, 1951. PF 23 relates to facts which USG claims constitute purge at a time prior to the Final Decree. PF 24 to 38 relate to the post-Final Decree period.

Of the 38 proposed findings, USG makes no objection to PF 3, 8, 16, 19, 27, 31, 35-37, or a total of 9 proposed findings.

USG's objections with regard to the remaining 29 proposed findings may be divided into four classes. First, [fol. 1706] proposed findings to which USG objects because they are allegedly "inadequate", "misleading", and have improper "implications"; second, proposed findings which are allegedly "irrelevant and immaterial"; third, proposed findings which are allegedly erroneous because one of the Court's holdings is allegedly erroneous; and fourth, proposed findings which USG claims have no support in the record. Each of these four classes of objections will be discussed in turn.

1. Proposed Findings Allegedly "Inadequate", "Misleading" or Having Improper "Implications".

The objections which USG makes to the great bulk of the proposed findings are that they are "inadequate", "misleading" and that their "implications" are unfair to USG. USG's Memorandum is studded with the phrases "inadequate", "misleading", "erroneously implies", "mistakenly implies", and "improperly implies". USG does not claim that the record facts fail to support proposed findings in this class—rather, USG claims that the "impli-

* "PF" refers hereinafter to proposed finding or findings.

cations" of these proposed findings are misleading or that the findings do not fully and fairly set forth the facts as USG sees them. Objections and suggestions with regard to 23 of the 29 criticized proposed findings fall within this class, to the extent indicated in the table below:

Proposed Findings	*Objections by USG on grounds that they are "inadequate", "misleading", or have improper "implications"*
1, 2, 4, 5	All
6, 7	Obj. 2-4
9-14	All
15	Obj. 3
17, 18, 20-22	All
23C	Obj. 2
24	All
28	Obj. 2
30, 38	All

All of the above objections (and their correlative suggestions) are without merit, for one or more of the reasons given below.

[fol. 1707] First, many of the above objections and suggestions are *trivial*. For example, USG's first objection to PF 1 is that the finding is "inadequate and misleading" because it states that the "United States brought an Anti-Trust action (Civil No. 8017) against United States Gypsum Company, *et al.*," in lieu of naming each of the corporate defendants. Objections (and their correlative suggestions) of the same trivial kind include all objections to PF 1 and 2, objections 1 and 3 to PF 4 and 5, objection 3 to PF 15, objection 5 to PF 21 and 22, the single objection to PF 24, and the single objection to PF 38.

Second, USG draws wholly unwarranted "implications" from many of these proposed findings. For example, objection 3 to PF 6 is that the proposed finding that the licensees conditioned their business upon the continued use of USG's patent rights "implies that the co-conspirator licensees had been given some 'patent rights' in U. S. Gypsum's patents". We see no such implication.

USG's objections which draw unwarranted implications

from proposed findings include all USG's objections to PF 1 and 2, objections 2-4 to PF 6 and 7, all objections to PF 17, objection 2 to PF 23C, and objection 2 to PF 28.

Third, USG insists that whenever any finding unfavorable to its view of the case is proposed, additional findings which may be favorable to its theories of the case, however remotely relevant, be made at the same time. This entirely misconceives the function of findings. They need not recite every possible relevant fact on a controversial issue. There is room for a fair choice. As stated by the court in *In re Imperial Irrigation District,* 38 F. Supp. 770 (S. D. Cal. 1941), aff'd 136 F. 2d 539 (C. A. 9, 1943), cert. denied 321 U. S. 787:

> "The court need not find on every issue requested, but a finding of such essential facts as lay a basis for the decision is sufficient. * * *
>
> * * * Clearly the rule does not require the court to make elaborate findings upon facts which are in-[fol. 1708] appropriate to the decree entered, nor upon all such facts as will fully present every possible view of the case." (p. 772)

For example, PF 11-14 are not claimed by USG to state any erroneous facts. USG objects to them, however, and suggests a version which emphasizes facts reflecting its view of the case. PF 11-14, however, are a fair statement of the facts in relation to the issues now before the Court. Indeed, the thrust of USG's objections and suggestions is to reorient the facts toward the basic USG theory of this case—i.e., that the controlling facts here are the District Court's original findings and defendants' proffers of proof (see, e.g., USG Memo. pp. 30-31), a theory which has been rejected by this Court. Objections (and their correlative suggestions) of USG which are without merit for the reason that they allow no latitude for a fair choice of the salient facts or because they reflect USG's persistence in reorienting the facts to support its erroneous theory, or both, include objections to PF 4 and 5, 9-14, 18, 20-22 and 30.

2. Proposed Findings Allegedly "Irrelevant" and "Immaterial".

Objections are made to only two of National's proposed findings, PF 18 and 26, on the ground of irrelevancy and immateriality.

As to PF 18, it is submitted that the quoted statement of the Supreme Court in its second opinion relating to the formulation of a decree is an important fact in this case, which bears upon the relief now sought by the petitioners.

As to PF 26, the claims asserted by USG against Celotex and Kaiser are relevant to the jurisdiction of this Court based upon multiplicity of actions. They raise the possibility that the issues as to purge and misuse already present in four separate suits against USG's licensees may be present in additional suits against Celotex (the only USG licensee not sued by USG) and Kaiser.

[fol. 1709] 3. Proposed Findings Allegedly Resting on An Erroneous Court Holding.

The third class of objections made by USG rests upon the claim that the Court's holdings in this case are erroneous. As these objections go to the substance of the Court's ruling, and not to the form of the proposed findings, no comment is made thereon. The objections which fall within this class include substantially all objections to PF 23, including subparagraphs A, B, C, D and E. These objections (and their correlative suggestions) spring from USG's unwillingness to accept the Court's ruling that as a matter of law USG did not purge its misuse prior to the Final Decree.

Other objections (and their correlative suggestions) which go to the merits of the controversy and not to the form of the findings are objection 2 to PF 4 and 5 and objections 2 and 5 to PF 6 and 7.

4. Proposed Findings Allegedly Without Support in the Record.

USG attacks PF 5, 6, 15, 25 and 32, in whole or in part, as being without support in the record.

Proposed Finding 5

USG asserts that the Supreme Court, in its first opinion (333 U. S. 364) could not have determined that USG had misused its patents in the various ways set forth in PF 5, because USG had not presented its evidence at that point, and because the case was disposed of on a narrow adjudication, accepting as true defendants' proffers of proof.

PF 5 is correct, with the deletion hereinafter suggested. The various misuses found by the Supreme Court in 333 U. S. rested upon the license agreements, adherence thereto and other undisputed facts. Defendants' proffers failed to controvert any of the misuses found by the Supreme Court in 333 U. S. which are set forth in PF 5 ("price [fol. 1710] regulation", "suppression of related or similar unpatented products", and "regulation of methods and agencies of distribution"). For in the teeth of defendants' proffers of proof, the Supreme Court, in 340 U. S., found that not only was the price of patented gypsum board fixed, but in addition:

1. Production of open-edge gypsum board was restrained (340 U. S. 86, 90).
2. Prices were fixed in the sale of plaster and miscellaneous gypsum products sold in conjunction with gypsum board (340 U. S. 90-91).
3. Jobbers were eliminated (340 U. S. 91).
4. Trade practices were standardized (340 U. S. 91).

However, the parenthetical statement in the last sentence of PF 5, that the patent license agreements were "expanded in 340 U. S. 76 to cover gypsum products" may be omitted from this proposed finding as inapposite. The parenthetical expression was meant to indicate that the *relief*, not the patent license agreements, was expanded in 340 U. S. to cover gypsum products. Also, it is unnecessary in view of the statement following (b) of this finding.

Proposed Finding 6

USG disputes this finding on the ground that the record shows that the license agreements included basic patents, and, therefore, the petitioners organized their manufac-

turing plants upon the use of these patent rights because they had no choice, not because of the patent misuse. The second objection is that petitioners have taken an inconsistent position in that their defense in Iowa is that they did not use the patents sued on.

The record fully supports the proposed finding that the patent misuse arose from the unlawful patent license agreements. USG would not grant licenses except upon [fol. 1711] price fixing terms. If petitioners had refused to enter into these agreements, they would have been sued for infringement. In the event USG's patents had been held valid, petitioners would have had to cease operating entirely if unable to find alternative means of producing gypsum products. It was the patent misuse, therefore,—i.e., the making, and operating under, these agreements—which caused the petitioners to organize their plants upon the continued use of USG's patent rights. The fact that some petitioners may take a later inconsistent position in defending infringement suits does not in any way derogate from the fact that this proposed finding is fully supported in the record herein.

Proposed Finding 15

USG objects to the second sentence in this proposed finding which states that "The decree of November 7, 1949, therefore, never became effective." After the decree was entered, both the Government and USG appealed. In connection with USG's appeal the decree was stayed by an order on January 9, 1950. Although the mandate of the Supreme Court dismissed USG's appeal as of May 29, 1950, it was signed by the Clerk of the Supreme Court on July 18, 1950, and was filed in the District Court on July 19, 1950. From January 9, 1950 to at least July 19, 1950, therefore, the 1949 decree was stayed. However, because of both appeals, and the knowledge of all parties that the decree would not be finally settled until both appeals were decided, the decree had no practical effect. National and Certain-Teed, for example, took no licenses thereunder, although they did so after the Final Decree of May 15, 1951. It is therefore suggested that the second sentence

in PF 15 be deleted and the following inserted in lieu thereof:

> "Because of the appeal by both the Government and USG (the 1949 decree having been stayed in connection with USG's appeal, from January 9 to July 19, 1950), neither the Government nor the industry treated it as a practical, working decree."

[fol. 1712] Proposed Finding 25

USG asserts that this proposed finding erroneously states the amounts which it is seeking to recover against Ebsary and Newark. PF 25, in its present form, is not erroneous; it clearly implies that the maximum recovery sought against Ebsary is $245,000, and against Newark $285,000.

However, National has no objection to restating this proposed finding to indicate clearly the amounts sought by USG on each of the various counts against Newark and Ebsary. USG's suggestion with regard to interest is also unobjectionable, and, therefore, National has no objection to USG's suggested finding 25.

Proposed Finding 32

USG's first objection to this proposed finding is that it is erroneous because in the Ebsary and Newark complaints the amounts sought are greater in Counts III to V than under Counts I and II. But USG overlooks the fact that the proposed finding is that the amounts sought in Counts III to V in these suits is precisely the same as the amounts sought in Counts I and II *"for the period prior to the Final Decree"*. The only reason why, in the case of Newark and Ebsary, more money is sought by USG under Counts III to V, is that the period of time sued for extends beyond the Final Decree. For the period prior to the entry of the Final Decree USG is seeking precisely the same amounts under Counts III to V against each of the petitioners as it seeks under Counts I and II.

USG's third objection* is to that part of the proposed

* It is unnecessary to discuss the second objection which is merely argumentative.

finding which states that the amounts sought in Counts I [fol. 1713] and II "are the amounts provided for and measured by the old unlawful license agreements". The license agreements, as correctly stated by USG, required royalties to be paid on all gypsum board made and sold, whether or not made under the licensed patents. But it is also true that USG is seeking in Counts I and II to enforce the covenant to pay under the original license agreements, although it desires the royalties due only for the patented gypsum board made and sold. Counts I and II, therefore, are attempts by USG to enforce a covenant in the license agreements declared invalid, with a *pro tanto* waiver of royalties due under that covenant by USG by reason of the manufacture and sale of unpatented gypsum board, *if any*. This *pro tanto* waiver in nowise limits the fact that USG in Counts I and II is actively enforcing covenants in the old unlawful license agreements.

While PF 32 is correct, it would perhaps be clearer if PF 32 were amended to read as follows:

> "The amounts sought in Counts III to V in these suits for the period prior to the Final Decree is precisely the same as the amounts sought as royalties in Counts I and II. In Counts I and II the amounts are sought to be recovered by means of enforcing the covenant to pay in the old unlawful license agreements."

It is submitted that, with the above amendments to PF 5, 15, 25 and 32, the findings proposed by petitioners National and Certain-Teed set forth fairly and accurately the salient facts relative to the determination of the issues before this Court.*

B. Proposed Conclusions of Law

Petitioners proposed 16 conclusions of law. They follow closely both the language of the Court's opinion, and its quadripartite structure.

---

* All USG objections and suggestions directed at the proposed findings (and also conclusions and decree) not specifically commented on are objected to by National.

[fol. 1714] Most of USG's objections and suggestions with regard to the proposed conclusions do not go to the form of these conclusions, but dispute the correctness of the Court's rulings.

Proposed Conclusions 1 to 6

USG's objections to Proposed Conclusions 1 to 6 go to the merits, except for two objections, both unjustified, which go to the form of Conclusions 1 and 5 respectively. As to Conclusion 5, it may be pointed out that the claims against Kaiser and particularly Celotex, a former USG licensee, portend additional lawsuits involving the same issues now pending in the four actions commenced by USG (see PF 26).

Proposed Conclusion 7

USG's objections 1 and 2 go to substance, not form. The first two sentences suggested as an addition to Proposed Conclusion 7 are taken from the Court's opinion at page 25, and are unobjectionable. The last suggested sentence, however, is unnecessary and does not fairly or fully reflect the opinion of the Court in the light of the Court's statement in the first paragraph of page 21 of its opinion.

Proposed Conclusion 8

Objection is made to the last two sentences of this proposed conclusion on the ground that they are statements of fact, not law. Nevertheless, they are an elaboration of the principle stated in the first sentence of the conclusion; and they are particularly pertinent in the instant case where the Court is dealing with a situation which was "either overlooked at the time the decree was entered" or which arose "after the decree".

[fol. 1715] Proposed Conclusion 9

Objections (c) and (d) to Proposed Conclusion 9 intermix arguments going to substance and form. The third sentence of Proposed Conclusion 9 is particularly attacked. It is submitted that this sentence should be read with Proposed Conclusion 8. When so read, it is a proper conclu-

sion that a Court has power to modify a decree to take care of a situation overlooked at the time a decree was entered, or which arose after the decree, where the modification will "cure the ill effects of the illegal conduct".

Proposed Conclusion 10

The suggestion adding language from page 24 of the Court's opinion to the sentence which is now Proposed Conclusion 10 is unobjectionable.

Proposed Conclusion 11 to 14

USG's objections to these proposed conclusions go to issues decided by the Court.

Proposed Conclusions 15 and 16

These conclusions go to issues decided by the Court.

As to whether the decree properly prohibits prosecution of infringement suits against Newark and Ebsary during the period subsequent to May 15, 1951, the Court's last statement on this issue, at page 38 of its opinion, would support this conclusion. However, as National is not involved in this controversy, no further comment is made thereon.

It is submitted that the conclusions proposed by the petitioners are proper. National, however, has no objection to the above amendments of Proposed Conclusions 7 and 10.

[fol. 1716] C. Proposed Decree

USG's objections go to issues decided by the Court. As to costs, they should be borne by USG for its unwarranted institution of suits against the petitioners.

Respectfully submitted, Finck and Huber, Rosenman Goldmark Colin & Kaye, Seymour Krieger, Attorneys for National Gypsum Company.

October 11, 1954

[fol. 1717] [Filed October 11, 1954. Harry M. Hull, Clerk]

ROSENMAN GOLDMARK COLIN & KAYE
575 Madison Avenue, New York 22

October 11, 1954

The Hon. Kimbrough Stone
United States District Court
for the District of Columbia
Washington 1, D. C.

Re: U. S. v. U. S. Gypsum, et al.

Civil Action No. 8017

Dear Judge Stone:

Pursuant to Judge Rosenman's letter to you of September 27, 1954, National Gypsum Company has filed today its "Memorandum in Answer to U. S. Gypsum Company's Objections and Suggestions with Respect to Petitioners' Proposed Findings of Fact, Conclusions of Law and Decree."

However, in accordance with your instructions by telephone to Judge Rosenman on October 4th, National's Memorandum has omitted any answer to U. S. Gypsum's arguments on the merits, and is restricted to the matter of the form of the findings, conclusions and decree.

Respectfully, (S) Seymour D. Lewis.

SDL:JC

cc: The Hon. Eugene Worley, The Hon. William P. Cole.

Edward Knuff, Esp., South S.E.C. Bldg. Room 2441, 2nd & Indiana Avenues, Washington, D. C., Attorney for the United States of America

[fols. 1718-1720] Hugh Lynch, Jr., Esquire, 1625 K Street, N.W., Washington 6, D. C.

Bruce Bromley, Esquire, Cravath, Swaine & Moore, 15 Broad Street, New York, New York

Cranston Spray, Esquire, MacLeish, Spray, Price &

Underwood, 134 So. LaSalle Street, Chicago 3, Illinois, Attorneys for U. S. Gypsum Company

Norman A. Miller, Esquire, Messrs. Clausen, Hirsch & Miller, 135 South LaSalle Street, Chicago 3, Illinois, Attorney for Certain-Teed Products Corporation

Albert E. Hallett, Esquire, Dallstream, Schiff, Stern & Hardin, 231 South LaSalle Street, Chicago 4, Illinois, Attorney for Celotex Corporation

Joseph S. Rippey, Esquire, 612 Powers Building, Rochester 14, New York, Attorney for Ebsary Gypsum Company, Inc.

Benjamin P. DeWitt, Esquire, DeWitt, Pepper & Howell, 120 Broadway, New York 5, New York, Attorney for Newark Plaster Company

---

[fol. 1721] [File Endorsement Omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title Omitted]

MOTION OF U. S. GYPSUM CO., FOR RECONSIDERATION RE OPINION OF JULY 6, 1954—Filed October 18, 1954.

Comes now United States Gypsum Company (hereinafter referred to as U. S. Gypsum), by its attorneys, and moves that the court reconsider its apparent denial of the right of U. S. Gypsum to petition for reconsideration and for rehearing in respect to manifest errors of law and of fact embodied in the court's opinion of July 6, 1954, and which errors and petition are set forth in U. S. Gypsum's Objections and Suggestions with respect to the Petitioners' Proposed Findings of Fact, Conclusions of Law and Decree, and further moves that this motion be set down for hearing at a date convenient to the court, for the reasons that:

1. Pursuant to this court's order entered July 27, 1954, U. S. Gypsum, on September 17, 1954, filed herein its objections and suggestions with respect to petitioners' pro-

posed findings, conclusions and decree, wherein U. S. Gypsum set forth and discussed, among other things, certain basic errors in the proposed findings, conclusions and decree resulting from the incorporation of manifest errors of law and of fact in the majority opinion, and the court was asked to reconsider its opinion in the light of such objections and suggestions and to that end to set the matter down for further argument at a date convenient to the court (pp. 26, 85).

[fol 1722] 2. All parties have now had ample opportunity to consider the petitioners' proposed findings, conclusions and decree, and U. S. Gypsum's objections and suggestions with respect thereto, and to answer or otherwise move with respect thereto, and National Gypsum Company (hereinafter referred to as National), under the circumstances hereinafter set forth, has filed a memorandum in answer to U. S. Gypsum's objections and suggestions.

3. Rather than moving for leave to answer or strike U. S. Gypsum's objections and suggestions in whole or in part, National, by its attorney Judge Samuel I. Rosenman, on September 27, 1954, addressed a letter to the Honorable Kimbrough Stone, presiding Judge of this court, reading in part:

> "It is respectfully requested that the Court permit National to file, along with its answer to USG's objections and suggestions with respect to the form of the decree, findings and conclusions, its answer to USG's arguments on the merits. National's answer to USG's argument on the merits will restrict itself, however, to answering only the new contentions raised by USG. National proposes, if the Court so permits, to file its Memorandum by October 11, 1954.
>
> "We urge, however, that the Court disregard USG's reargument and our answers thereto; that the Court reject USG's request for further oral argument; and that the Court limit its consideration solely to the matter of the form of the findings, conclusions and decree."

[fol. 1723] Under date of October 11, 1954, National filed, pursuant to Judge Rosenman's letter to Judge Stone of September 27, 1954, its memorandum in answer to U. S. Gypsum's objections and suggestions, and on the same date wrote a letter of transmittal addressed to Judge Stone, and signed by Seymour D. Lewis, a partner of Judge Rosenman, in which reference was made to the enclosed memorandum and it was then stated:

> "However, in accordance with your instructions by telephone to Judge Rosenman on October 4th, Nation's Memorandum has omitted any answer to U. S. Gypsum's arguments on the merits, and is restricted to the matter of the form of the findings, conclusions and decree."

Until receipt of National's transmittal letter of October 11, 1954, U. S. Gypsum had no knowledge of the telephone conversation between Judge Stone and Judge Rosenman and does not now know of the circumstances of the telephone call or the basis or significance of the claimed instructions from Judge Stone to Judge Rosenman to omit from the memorandum "any answer to U. S. Gypsum's arguments on the merits". If, by the instructions asserted to have been given to Judge Rosenman, it was intended to rule that U. S. Gypsum did not have the right to seek a reconsideration or rehearing of what it regarded as manifest errors of law and of fact set forth in its said objections and suggestions, then U. S. Gypsum submits that any *ex parte* determination of such matters, either in whole or in part, is not in accordance with orderly procedure and justice to the party not heard, and that U. S. Gypsum is entitled to be heard on its right to seek such a reconsideration or rehearing.

[fol. 1724] 4. By this court's order of July 27, 1954, U. S. Gypsum was entitled to object to matters of substance as well as form in the proposed findings, conclusions and decree, and it was impossible to state its objections without including the basic errors set forth and discussed in its said objections. Moreover, U. S. Gypsum is entitled to present for this court's reconsideration, the

manifest errors of law and of fact asserted in its objections, and to seek a rehearing and reconsideration of this court's apparent denial of that right, under the authority of Rule 59(a) of the Federal Rules of Civil Procedure. U. S. Gypsum accordingly asks that this court, if it has not already done so, treat U. S. Gypsum's request for a reconsideration of the errors of law and of fact asserted in its said objections not only as being filed pursuant to this court's order of July 27, 1954, but also as a motion for reconsideration and rehearing under Rule 59(a).

5. This court, sitting as a court of equity, could and should, under long established equity practice, now embodied in the Federal Rules of Civil Procedure, reconsider its apparent denial of U. S. Gypsum's right to seek a reconsideration of this court's decision of July 6, 1954, in the light of the manifest errors of law and of fact urged in U. S. Gypsum's objections, and to that end the matter should be set down for hearing.

Respectfully submitted, Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., Attorneys for United States Gypsum Company, 1625 K Street, N. W., Washington 6, D. C.

[fol. 1725] [File endorsement omitted]

UNITED STATES DISTRICT COURT
DISTRICT OF COLUMBIA

[Title omitted]

MEMORANDUM OF NEWARK PLASTER COMPANY AND EBSARY GYPSUM COMPANY, INC. IN ANSWER TO UNITED STATES GYPSUM COMPANY'S OBJECTIONS AND SUGGESTIONS WITH RESPECT TO PETITIONER'S PROPOSED FINDINGS OF FACT, CONCLUSIONS OF LAW AND DEGREE—Filed October 21, 1954

[fol. 1726] I

Newark Plaster Company, hereinafter called "Newark", and Ebsary Gypsum Company, Inc., hereinafter called "Ebsary", adopted and joined in the proposed findings

of fact, conclusions of law and decree submitted by National Gypsum Company, hereinafter called "National", pursuant to the opinion of the Court herein filed July 6, 1954.

United States Gypsum Company, hereinafter called "USG", has filed a memorandum objecting to those proposed findings of fact, conclusions of law and decree, and National has now submitted a memorandum in answer to USG's objections.

Newark and Ebsary adopt and join in the answer of National to USG's objections, but submit this memorandum in order to supplement National's answer to USG's objections to proposed conclusions of law Nos. 15 and 16. Proposed conclusion 15 relates to Count IV, the quantum meruit count and conclusion 16 relates to Counts V and VI, the infringement counts. In its memorandum, National supports these proposed conclusions without reservation [fol. 1727] over USG's objections, but adds "However, as National is not involved in this controversy, no further comment is made thereon" (National's memorandum p. 12).

The point involved is whether the decree should follow the ultimate conclusion expressed in the Court's opinion "that further prosecution of all Counts of the USG suits should be enjoined", including the Counts in the Newark and Ebsary complaints relating to the period subsequent to May 15, 1951 (Opinion, p. 38).

The purpose of this memorandum is to supply further comment with respect to this point on behalf of Newark and Ebsary which are directly involved.

II

This Court, in its opinion, held that apart from any question of misuse and purge, the prosecution of Counts I, II and III in the various actions brought by USG should be enjoined because they are based on license agreements which have been declared illegal, null and void (Opinion pp. 16, 32).

The Court held that the prosecution of Count IV, the quantum meruit Count, and Counts V and VI, the infringe-

ment Counts, which might otherwise be proper, should be enjoined because of the unpurged misuse by USG of its patents.

With respect to Count IV, the Court said:

> "Count IV of USG petitions is for *quantum meruit* covering the use of the patents. Under the Hartford-Empire opinion (324 U. S. 570, 572), we think this Count is proper and prosecution thereof should not be enjoined unless USG is barred by unpurged misuse of its patents (Opinion, pp. 32-33)".

With respect to Counts V and VI, the infringement Counts, the Court held in effect that USG would not be permitted to sue for infringement of its patents for any [fol. 1728] period during which USG continued the unpurged misuse of its patents (Opinion, pp. 29 et seq.).

In other words, absent unpurged misuse, USG might sue on quantum meruit or for infringement, but because there was unpurged misuse by USG up to this time, this Court has held that it will enjoin prosecution of all the *quantum meruit* and infringement counts in all the USG actions (Opinion, pp. 35, 38).

In the actions in Iowa, National and Certain-Teed Products Corporation, hereinafter called "Certain-Teed", have already filed their answers, asserting as a defense to the quantum meruit and infringement Counts, "that they did not use the patents sued on" (National's memorandum p. 7, USG's Objections, p. 34). Ordinarily, this would raise the issue of infringement *vel non*, which issue would be disposed of in the Federal District Court in Iowa. But this Court has held that because of USG's unpurged misuse of its patents, it will not permit that issue of infringement *vel non* to be litigated, but will enjoin the prosecution of the actions.

Newark and Ebsary have not yet filed answers in the actions brought against them in New Jersey and New York, respectively, but have indicated that when they do file answers, they will assert as a defense, exactly as National and Certain-Teed have done, that "they did not use the patents sued on". Ordinarily, as in the case of

National and Certain-Teed, this defense, when asserted, would raise the issue of infringement *vel non*, which issue would have to be disposed of in two different Courts, the Federal District Court in New Jersey in the case of Newark and the Federal District Court in the Southern District of New York in the case of Ebsary. But, as in the case of National and Certain-Teed, the Court has held that it will not permit that issue of infringement *vel non* to be litigated but will enjoin the prosecution of those actions. Thus the Court reached the unequivocal conclusion "(3) that further prosecution of *all* Counts in the USG suits should be enjoined" (emphasis supplied).

[fol. 1729] The only difference between the quantum meruit and infringement Counts against Newark and Ebsary on the one hand, and those against National and Certain-Teed on the other, is that USG sues National and Certain-Teed for the period up to May 15, 1951, while USG sues Newark and Ebsary for the period up to the filing of the complaints in the actions. USG will be enjoined from suing any of the petitioners for the period up to May 15, 1951 because of the unpurged misuse by USG of its patents during that period. USG will also be enjoined from suing any of the petitioners—specifically Newark and Ebsary—for the period beyond May 15, 1951 down to the commencement of the actions because, as this Court has found, USG's unpurged misuse of its patents continued during that period.

As to the duration of the unpurged misuse by USG, this Court said:

> "We think there was misuse by USG, as matter of law on the facts here, which has not been purged" (p. 34).
>
> • • •
>
> "We think this course of conduct, as clearly shown by the proceedings of record in the Anti-Trust case and in these suits by USG, must be construed as meaning that USG has continued to misuse its patents by seeking recovery, directly and indirectly, on the illegal license agreements up to this time" (p. 35).
>
> • • •

"The USG suits now pending show conclusively that even yet it (USG) is striving to enforce the royalty provisions of the illegal patent license agreements.

"We think such an attempt is clear misuse of its patents; that such misuse yet continues; * * *" (p. 38).

Having decided that recovery on the theory of quantum meruit or infringement will be enjoined so long as there is unpurged misuse, and having decided further that USG's unpurged misuse continued at least down to the commence-[fol. 1730-1732] ment of the actions against Newark and Ebsary, the Court could not consistently do otherwise than to hold, as it did, that the prosecution of *all* the Counts in all the actions should be enjoined. The Court could not find that unpurged misuse of patents barred recovery on the quantum meruit and infringement Counts in the case of National and Certain-Teed, but did not bar recovery in the case of Newark and Ebsary. The Court, further, could not find that it should not enjoin the prosecution of the quantum meruit and infringement Counts in the case of Newark and Ebsary because Newark and Ebsary *intended* to raise the issue of infringement *vel non* in their answers when the answers are filed; and enjoin the prosecution of those Counts in the case of National and Certain-Teed which have already raised the issue of infringement *vel non* in answers already filed. Finally, the Court could not find that there is a multiplicity of actions in the case of National and Certain-Teed, where the issue of infringement *vel non* would be tried in the same Court in Iowa, presumably before the same judge; and find that there is no multiplicity of actions in the case of Newark and Ebsary where the issue of infringement *vel non* would be tried in two different jurisdictions—New Jersey and New York—before two different judges.

Conclusion

The final decree of this Court should follow the ultimate conclusions expressed in the Court's opinion, including the

ultimate conclusion "that further prosecution of *all* Counts of the USG suits should be enjoined" (emphasis supplied).

Respectfully submitted, DeWitt, Pepper & Howell, Attorneys for Newark Plaster Company. Joseph S. Rippey, Attorney for Ebsary Gypsum Company.

October 18, 1954.

[fol. 1733] [File Endorsement Omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

ORDER DENYING U. S. GYPSUM': OBJECTIONS TO PETITIONER'S PROPOSED FINDINGS, ETC. AND MOTION FOR RECONSIDERATION —December 9, 1954

The Part I of United States Gypsum Company's Objections and Suggestions with Respect to Petitioners' Proposed Findings of Fact, Conclusions of Law, and Decree, filed September 17, 1954, is denied consideration; the motion of United States Gypsum Company for reconsideration and for rehearing filed October 18, 1954 is denied; denial of each of these matters is without prejudice to United States Gypsum Company to present, after entry of Decree herein, such proper matters as it may then deem advisable.

Dated this 9th day of December, 1954.

Kimbrough Stone, Eugene Worley, William P. Cole, Jr., Judges.

[fol. 1734] [File Endorsement Omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

No. 8017 Civil

UNITED STATES OF AMERICA, Plaintiff

v.

UNITED STATES GYPSUM COMPANY, ET AL., Defendants

In re Petitions of NATIONAL GYPSUM COMPANY, *et al.*, Petitioners, v. UNITED STATES GYPSUM COMPANY, Respondent.

MEMORANDUM OPINION RE OBJECTION AND MOTION FOR RECONSIDERATION—December 9, 1954

Before the Honorable KIMBROUGH STONE, United States Circuit Judge and the Honorable EUGENE WORLEY and the Honorable WILLIAM P. COLE, Jr., Judges of the United States Court of Customs and Patent Appeals, sitting as District Judges.

PER CURIAM: Under the majority opinion filed herein on July 6, 1954, Petitioners were granted thirty days thereafter to serve upon opposing counsel and to file with this Court, "suggested form of decree and form of Conclusions and Findings." Thereafter, United States Gypsum Company [1] was granted until September 17, 1954 to file objections to any suggested forms of Findings, Conclusions and Decree so filed by Petitioners. National Gypsum Company filed an answering memorandum on October 11, 1954. On October 18, 1954, USG filed a motion for reconsideration and rehearing with supporting memorandum. On October 21, 1954, Newark Plaster Company and Ebsary Gypsum Company, Inc. filed a joint answering [fol. 1735] memorandum to the Objections, etc. of USG. On October 22, 1954, National filed a memorandum of authorities opposing the above motion of USG.

---

[1] For convenience, United States Gypsum Company is hereinafter designated as USG.

First

The Objections and Suggestions of USG are stated in two "Parts" as follows:

> "* * * Part I presents basic errors inherent in the proposed findings, conclusions and decree because they incorporate findings and conclusions from the majority opinion which are erroneous and which should therefore be given further consideration by the Court. Part II deals with specific detailed objections and suggestions regarding the proposed findings of fact, conclusions of law and decree."

Part I concludes with the statement following:

> "U. S. Gypsum respectfully urges that, in view of the matters hereinbefore presented, this court reconsider its opinion of July 6, 1954, and afford an opportunity for further hearing with respect thereto, before it formalizes the opinion by the entry of findings of fact, conclusions of law, and amendment to the decree of May 15, 1951."

It is thus clear that Part I is not directed to the matter of aiding the Court in its formation of Findings, Conclusions and Decree to express the determinations reached in the majority opinion. Rather it is in the nature of a petition for rehearing which argues the merits of the matters covered in that opinion.

The direction to Petitioners (in the majority opinion) and the later order giving USG leave, until September 17, to file objections and suggestions was each definitely confined to matters having to do with formulation of Findings, of Conclusions and of a decree. There can be no doubt of this. Therefore, Part I of USG's Objections and Suggestions was not covered by the leave granted it. The Court might well have disregarded Part I or have stricken it of its own motion or it might have heard and considered it on its merits. Such choice resting upon [fol. 1736] "its inherent power to direct a case so as to aid in its disposition" (*United States* v. *United States Gypsum Co. et al.*, 340 U. S. 76, 81).

This choice necessitated no immediate determination until the receipt of a letter from Judge Rosenman.[2] The letter requested leave to "answer USG's argument on the merits", such answer to be restricted however to "the new contentions raised by USG"; and stating such memorandum would be filed by October 11, only one week after receipt of the letter by Judge Stone. At the same time, there was insistence that Part I should not be considered.[3] Thus was created a somewhat complicated sit-

---

[2] While dated in New York City as of September 27, the letter was directed to Judge Stone in Washington, D. C. from where it was forwarded to him at Kansas City, Mo., first coming to his attention the morning of Monday, October 4.

[3] The text of the letter follows:

"ROSENMAN GOLDMARK COLIN & KAYE

"575 Madison Avenue New York 22

"Samuel I. Rosenman
"Godfrey Goldmark
"Ralph F. Colin
"Sidney M. Kaye
"Walter J. Petschek "Murray Hill 8-7800
"Max Freund
"Ambrose Doskow
"Seymour D. Lewis

"September 27, 1954

"Hon. Kimbrough Stone
"United States District Court
"for the District of Columbia

"Washington 1, D. C.

"Re U. S. v. U. S. Gypsum, et al.
"Civil Action No. 8017

"Dear Judge Stone:

"On September 17th, the United States Gypsum Company served upon National Gypsum Company a Memorandum entitled 'United States Gypsum Com-

uation which seemed to require immediate action as to whether the Court would consider Part I, and if so, to what extent.

The Judges (on October 4) discussed this situation by long distance telephone. The result was unanimous agreement that it would be more orderly not to consider the matters covered by Part I in connection with formulation of the Findings, Conclusions and decree; that accompanying such formulation, an order denying Part I without prejudice to USG would be entered; and that Judge Rosenman would be informed by Judge Stone that he need not answer Part I in the memorandum to be filed

---

pany's Objections and Suggestions with Respect to Petitioners' Proposed Findings of Fact, Conclusions of Law, and Decree', which, without leave of Court, reargues issues decided by the Court's opinion of [fol. 1737] July 6th, and sets forth several new arguments in support of USG's contentions.

"Your Honor will recall that under the Court's opinion, permission was granted only to Petitioners to file a suggested form of findings, conclusions and decree. Thereafter, upon consent of petitioners National and United States of America, an order was entered on July 27, 1954, that 'the respondent United States Gypsum Company shall have to and including September 17, 1954 within which to serve upon Petitioners' counsel and file with the Court objections or suggestions with respect to the form or forms of Decree and form or forms of Conclusions and Findings so served upon its counsel by the Petitioners or any of them.' No authority was granted to USG to reargue any of the issues determined by this Court.

"It is respectfully requested that the Court permit National to file, along with its answer to USG's objections and suggestions with respect to the form of the decree, findings and conclusions, its answer to USG's arguments on the merits. National's answer to USG's argument on the merits will restrict itself, however, to answering only the new contentions raised

by October 11. Later the same day, Judge Rosenman was informed that he need not answer this Part I.

This memorandum by Judge Rosenman was transmitted to the Clerk of the Court with a letter addressed to Judge Stone and reading, in part, "However, in accordance with your instructions by telephone to Judge Rosenman on October 4th, National's Memorandum has omitted any answer to U. S. Gypsum's arguments on the merits, and is restricted to the matter of the form of the findings, [fol. 1739] conclusions and decree." Shortly thereafter (October 18, 1954), USG filed its motion that the Court "reconsider its apparent denial of the right of U. S.

---

by USG. National proposes, if the Court so permits, to file its Memorandum by October 11, 1954.

"We urge, however, that the Court disregard USG's reargument and our answers thereto; that the Court reject USG's request for further oral argument; and that the Court limit its consideration solely to the matter of the form of the findings, conclusions and decree.

"Respectfully submitted,

"/s/ SAMUEL I. ROSENMAN
"Samuel I. Rosenman

"cc: Hon. Eugene Worley

"Hon. William P. Cole
"Edward Knuff, Esquire
"South S.E.C. Bldg. Room 2441
"2nd & Indiana Avenues
"Washington, D. C.
"Attorney for United States of America

"Hugh Lynch, Jr., Esquire
"1625 K Street, N.W.
"Washington 6, D. C.
"Bruce Bromley, Esquire
"Cravath, Swaine & Moore
"15 Broad Street
"New York, New York
"Cranston Spray, Esquire

Gypsum to petition for reconsideration and for rehearing in respect to the manifest errors of law and of fact embodied in the court's opinion of July 6, 1954 * * * set forth in U. S. Gypsum's Objections and Suggestions * * * further moves that this motion be set down for hearing * * *". The motion claims such right of consideration and rehearing also under Civil Rule 59(a) governing new trials.

As stated above, the plan of the Court was to deny consideration of Part I at the time of and in connection with its determination of Findings, Conclusions and Decree, without prejudice to USG. USG has no uncontrolled right to argue the merits of the majority opinion before that

---

"MacLeish, Spray, Price & Underwood
"134 So. LaSalle Street
" Chicago 3, Illinois
"Attorneys for U. S. Gypsum Company

[fol. 1738] "Norman A. Miller, Esquire

"Messrs. Clausen, Hirsh & Miller
"135 South LaSalle Street
"Chicago 3, Illinois
"Attorney for Certain-Teed Products Corporation

"Albert E. Hallett, Esquire
"Dallstream, Schiff, Stern & Hardin
"231 South LaSalle Street
"Chicago 4, Illinois
"Attorney for Celotex Corporation

"Joseph S. Rippey, Esquire
"612 Powers Building
"Rochester 14, New York
"Attorney for Ebsary Gypsum Company, Inc.

"Benjamin P. DeWitt, Esquire
"DeWitt, Pepper & Howell
"120 Broadway
"New York 5, New York
"Attorney for Newark Plaster Company"

opinion has been formalized into a Decree. Any earlier presentation is entirely within the discretion of the Court as to whether such presentation would be helpful to the Court. The Court might have constructed its own Findings, Conclusions and Decree without seeking aid from counsel for any of the parties. It saw fit to ask that aid, to be furnished through suggestions as to those matters. Those requests were specifically limited and cannot properly be tortured into any allowance of discussion of the merits of the determinations stated in the majority opinion. Rule 59(a) has no application until the entry of a Decree, which creates the situation where the Rule becomes activated. The motion of USG has exactly the same purpose as Part I of its Objections and Suggestions. It will be disposed of in like manner.

The Court prefers to follow the regular procedure by stating its determinations as to Findings, Conclusions [fol. 1740] and Decree in proper definite form at this time, leaving USG to challenge the thus completed statement of such determinations by such methods as it may be then advised.

An order is this day entered denying consideration of Part I and denying USG's motion for reconsideration and rehearing. Each of such denials is entirely without prejudice to USG to present, after entry of decree herein, such proper matters as it may then deem advisable. All three Judges join in this disposition of these two matters.

Second

The immediate engagement of a majority of the Court (Judges Stone and Worley) is to state the Findings of Fact and the Conclusions of Law, which are the bases for a Decree, and to settle the terms of such a Decree. In this undertaking, the Court has been much aided by the proposals and observations both of Petitioners and of USG.

Separately or generally to analyze and discuss the numerous Suggestions, Objections, and Counter-Suggestions would serve no useful purpose. The Findings made, the Conclusions stated and the Decree entered by the

Court will evidence our consideration of all that counsel for the parties have brought to us.

However, to prevent misunderstanding, it may be helpful to make the following observations concerning the Findings of Fact. The "Objections" and the "Proposed Findings" of USG fall naturally in two classes. One of these challenges the *verity*—the truthfulness—of particular Findings suggested by Petitioners. The other aims at the accuracy—meaning incompleteness or insufficiency to present an adequate picture of the subject matter—of a particular Finding. In some instances, both the "verity" and the "accuracy" of a Finding are assailed.

[fol. 1741] Where the problem has been "verity", the Court has expressed its decision. Where the problem has been "accuracy", it has usually been a matter of the extent to which the details of the subject matter of a Finding should be stated. Therefore, the circumstance that such detail is not contained in a Finding may mean only that the Court deems it unnecessary.

Except as covered by the just preceding paragraph or as included in the Findings of Fact filed, the Findings suggested by all parties are denied. Where the suggested Conclusions of Law are not, in substance, incorporated in those filed by the Court, they are denied. The same situation and the same ruling applies to the Form of Decree.

Judge Cole does not join in the Findings of Fact, the Conclusions of Law nor the Decree since he adheres to the view, as expressed in his dissenting opinion (filed July 6, 1954), that this Court is without jurisdiction in the matters presented by Petitioners.

[fol. 1742] [File Endorsement Omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

No. 8017 Civil

UNITED STATES OF AMERICA, Plaintiff,

v.

UNITED STATES GYPSUM COMPANY, ET AL., Defendants.

IN RE PETITIONS OF NATIONAL GYPSUM COMPANY, ET AL., PETITIONERS, v. UNITED STATES GYPSUM COMPANY, RESPONDENT.

FINDINGS OF FACT—December 9, 1954

1. On August 15, 1940, the United States brought an Anti-trust action (Civil Action No. 8017) against United States Gypsum Company, National Gypsum Company, Certain-Teed Products Corporation, The Celotex Corporation, Ebsary Gypsum Company, Inc., Newark Plaster Company, et al., which were engaged in the mining of gypsum rock and in the manufacture and sale of gypsum products. The complaint charged a violation of Sections 1, 2 and 3 of the Sherman Act by reason of the defendants' activities in the manufacture and sale of gypsum products, carried out in part under the guise of patent license agreements entered into by U. S. Gypsum, as licensor, and by National, Certain-Teed, Ebsary, Newark and other companies, as licensees. For a more detailed statement of the issues, reference is made to the opinion of Chief Judge Stephens narrating the facts and issues on the trial of the case (*U. S.* v. *U. S. Gypsum Co. et al.*, 67 F. Supp. 397).

2. The case came on for trial in due course and at the close of evidence for the United States, this [fol. 1743] statutory court of three judges on June 15, 1946 determined, among other things (67 F. Supp. 397), that, under its construction of *United States* v. *General Electric Co.* (272 U. S. 476), the separate license agreements were legal (67 F. Supp. at pp. 421-441); and that these agree-

ments were made *bona fides* with no ulterior purpose to violate the Act (67 F. Supp. at pp. 458-484). The Court sustained a motion to dismiss the complaint under Rule 41(b) of the Federal Rules of Civil Procedure upon the ground that on the facts and the law the Government had shown no right to relief (*U. S.* v. *U. S. Gypsum Co., et al.*, 67 F. Supp. 397).

3. The Government appealed and the Supreme Court reversed and remanded "for further proceedings in conformity with this opinion." (333 U. S. 364, 402). This decision was on March 8, 1948 with rehearing denied on April 5, 1948 (333 U. S. 869).

4. The Supreme Court (333 U. S. 364), on the prima facie case, decided that the industry-wide license agreements, entered with mutual knowledge of the licensor and of all of the different licensees, under which prices and distribution methods would be controlled, established an unlawful conspiracy and monopoly; and that "* * * regardless of motive, the Sherman Act barred patent exploitation of the kind that was here attempted" (p. 393).

5. The Supreme Court (333 U. S. 364) determined that USG had misused its patents to create various unlawful restraints effecting monopolization of the entire gypsum industry. This misuse extended to price regulation, to suppression of related or similar unpatented products, and to regulation of methods and agencies of distribution. The effective instrumentalities used by USG were [fol. 1744] patent license agreements containing various restrictive provisions. Such agreements covered control (a) of prices of patented gypsum board, (b) control or affection of prices of unpatented gypsum products, and (c) control over terms and conditions of sale and distribution thereof.

6. One result of the patent misuse was to create an economic situation where the conspirators—other than USG—had organized their manufacturing plants and conditioned their business operations upon the continued use of these patent rights which had been given them by the license agreements.

7. When the Supreme Court (333 U. S. 364) determined these license agreements to be violative of the Act, these

licenses were placed in an uncertain and perilous position. They were operating based on the licenses which were declared violations of the Act. They elected to disregard the license agreements and to continue use of the patented devices and methods.

8. Almost immediately following this opinion of the Supreme Court, each of the four defendant petitioners stopped paying accrued or future royalties or paying otherwise for use of the patents covered by the license agreements. No payments of any kind were made until new compulsory licenses were granted, under the Final Decree, to National and Certain-Teed, which were retroactive to May 15, 1951, the date of the Final Decree. Ebsary and Newark did not take out new licenses.

9. After rehearing was denied (April 5, 1948, 333 U. S. 869), this Court held a conference of counsel which resulted ultimately in a motion by the Government for summary judgment, it being claimed that there was no genuine fact issue remaining to be determined. Various de- [fol. 1745] fendants filed offers of proof as to fact matters they deemed yet in issue. These two occurrences were in June 1948. Beginning in June 1948 and extending to June 14, 1949, numerous briefs and memoranda were filed by the various parties in connection with the motion for summary judgment, the offer of proofs, suggested findings of fact, and form and contents of decree to be entered.

10. On June 14, 1949 this Court held an extended hearing upon all of these matters. At the hearing, a majority of this Court made clear their intention to sustain the motion for summary judgment; and counsel for all parties were given time to file suggestions and memoranda as to form of decree and other pertinent matters. Such suggestions and memoranda were filed up to August 12, 1949. Without further hearing, this Court entered its decree of November 7, 1949.

11. The hearing of June 14, 1949, and the written or printed suggestions and memoranda of the parties filed before, in connection with, and after that hearing, had to do, among other things, with various suggestions as to the form of decree to be entered, including the scope and pur-

poses of what later became, in substance, Articles III, IV and VI of that decree. Practically all of the matters were concerned with prevention of violation in the future, that is, after the effective date of the decree to be entered. However, USG was much concerned with avoiding any provision in the decree declaring the licenses illegal, null and void in their entirety. In this connection it voiced its apprehensions as to whether these petitioners would be absolved from payment of royalties for the period involved here by such a provision in the decree.

12. In a Reply Memorandum filed by USG (July 23, [fol. 1746] 1949), are the following statements:

> "The defendant licensees can have no purpose in making the suggestion that each patent license be adjudged illegal except to obtain some advantage with respect to the use of the patents. They apparently believe it will relieve them from accounting for anything done either before or after the Supreme Court's decision." (P. 6)
>
> "They have no right of any kind to Gypsum's patents in the future any more than if their licenses had expired without this litigation. With the cancellation of their present licenses they should only be placed in *status quo* to the extent that any licensee desires to continue the use of any of Gypsum's patents under which it is presently licensed." (P. 8.)
>
> "In the first place, Newark seeks a provision that each of the license agreements be adjudged unlawful under the anti-trust laws and illegal, null and voil, which not only goes beyond the scope of the determination by this court upon the motion for summary judgment but has for its purpose an attempt to be relieved from accounting, as stated before in this memorandum." (P. 9.)
>
> "National like Newark, is one of those companies which seeks to have the entire license contract declared illegal, apparently believing it will relieve them from accounting with respect to anything done before or after the decision of the Supreme Court." (P. 15.)

13. The main contention between USG (on one side) and the Government and the other defendants (on the other side) was whether the declaration of illegality in the proposed decree should be confined to the price-fixing provision in the license agreements or whether it should apply *in toto* to the entire license agreements. Strenuously, USG contended for such limitation to the price-fixing provisions. This appears not only in its arguments and briefs in connection with the June 14, 1949 hearing but in its original suggestions as to prospective Articles III, IV , V. and VI. As a companion and resultant position, USG urged that, while only the minimum price provision should be declared illegal, the existing agreements should be *cancelled, as of the date of the decree.* The result of [fol. 1747] and purpose of these contentions would be to leave the agreements valid—therefore enforceable—until entry of the decree, except for the minimum price provision. It was in this setting and in relation to these contentions, that USG expressed its apprehensions above set out. The contest was whether the agreements were illegal only as to minimum price provisions or *in toto.*

14. The decree of November 7, 1949 adopted the contention of the Government and the licensees and declared the agreements "illegal, null and void" in their entirety.

15. When this Court granted a summary judgment on the remand and entered its decree, both the Government and defendant USG appealed. The Government objected to the decree as being too narrow and as inadequate to cure the ill effects of the illegal conduct of the defendants. USG contended its proffer of proof revealed issues of fact which this Court should have determined instead of granting the summary judgment.

16. On May 29, 1950, the Supreme Court dismissed the appeal of the defendants (339 U. S. 959) in a memorandum (339 U. S. 960) wherein it affirmed Article III of the November 7, 1949, decree and stating:

> "* * * Article III of the decree of the District Court of November 7, 1949, reading as follows: 'The defendant companies have acted in concert in restraint of trade and commerce among the several

states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board and have monopolized trade and commerce in the gypsum board industry in violation of sections 1 and 2 of the Sherman Anti-Trust Act,' is affirmed. The corporate defendants and Samuel M. Gloyd, doing business as Texas Cement Plaster Company, are enjoined, pending further order of this Court, from (1) enforcing in any manner whatsoever the provisions of their current license agreements fixing, maintaining, or stabilizing prices of gypsum board or the terms and conditions of sale thereof, and (2) from entering into or performing any agreement or understanding in restraint of trade and commece in gypsum boad among the several states in the eastern territory of the United States by license agreements to fix, maintain or stabilize prices of gypsum board or by license or other concerted action arranging the terms and conditions of sale thereof."

[fol. 1748] 17. On the appeal by the Government, the Supreme Court altered and broadened some of the provisions of the decree of November 7, 1949 and remanded the case "for further proceedings in conformity with the opinion" (340 U. S. 76, 95). In that opinion there was no direct reference to a situation such as is now presented to the Court arising from these USG suits; Article IV of the decree of November 7, 1949 of this Court which declared the license agreements illegal, null and void in their entirety was not changed.

18. On appeal by the Government, the Supreme Court also extended its injunction order of May 29, 1950 (339 U. S. 960) to be "continued in effect until the entry of a final decree in the District Court."

19. On May 15, 1951, this Court modified its earlier decree in accordance with the opinion of the Supreme Court. In connection with the formation of this decree, the plaintiff and various defendants submitted suggested forms for a decree. In none of these forms was there any provision as to whether or not USG was to receive compensation for use of its patents during the period

(1948-1951) covered by the pending USG suits. The forms contained provisions for future licensed use thereof on a reasonable royalty basis. There was no appeal therefrom. This is the present Final Decree.

20. The pattern of the Final Decree of ten Articles is as follows: Article I is the jurisdictional declaration; Article II is the definition of terms used in the Decree, these include "Patents" and "Patent Licenses"; Article III declares the defendants have acted in concert to violate Sections 1 and 2 of the Act; Article IV is that "Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void"; Article V con-
[fol. 1749] tains the injunction provisions; Article VI covers non-discriminatory compulsory license agreements from USG to applicants therefor, subject to approval of the District Court; Articles VII and IX are not material here. Article VIII provides for supervision by the Department of Justice to secure compliance with the Decree; Article X is the reservation of jurisdiction for the purposes of construction of, carrying out of, or enforcement of the Decree.

21. A condensation of the method or plan of the Decree to remedy the unlawful situation may be stated as follows: by annulling the existing named license agreements; by injunction against acts which would tend to defeat the Decree; by use of new compulsory Court supervised license agreements; by Department of Justice supervisory inspections; and by retention of jurisdiction to protect and effectuate the purposes of the Decree.

22. USG did not purge the misuse of its licensed patents. USG urges five facts which it claims (separately or cumulatively) constitute evidence of purge at a time prior to May 15, 1951. These are as follows:

> A. That USG did not fix prices, under its licenses, after July 8, 1941. This is true. However, its effect is dissipated by two considerations: first, the notices that minimum prices bulletins would be suspended included the statement that such suspension would continue "until we decide again to exercise our right

to do so"; and, second, this price-fixing provision is inseparably joined with the other provisions found violative of the Act.

B. The claimed acquiescence of USG to the repudiation of the illegal agreements by Petitioners following the first appeal (333 U. S.). The record [fol. 1750] herein does not support the claim that USG "acquiesced" in these cessations of payments by Petitioners. In connection with the form of decree to be entered after summary judgment was granted, USG not only did not claim that the licenses had been rescinded but it urged strongly that only the minimum price-fixing provisions were illegal and that, in all other respects, the license agreements should be "cancelled" only as of the date of the decree to be entered. At that time and thereafter, it made clear that it expected to have and waived no rights to have "compensation" for the use of its patents; however, there was no suggestion as to what form enforcement of those rights would take if not voluntarily paid. Not until USG filed its suits against Petitioners was that made clear. Such suits included, among others, Counts for recovery under the unlawful agreements. Throughout, there is no basis for this claimed "acquiescence".

C. The offer by USG, early in 1949 (February or March), of new forms of licenses. Those proffered forms of licenses are not effective as acts of purge, as to the period covered by the pending USG suits, for two reasons. First, they were not intended to become effective until the entry of the decree because it was not until then that the unlawful license agreements were to be "cancelled and terminated" (Article IV, 2 of the form of decree submitted by USG on March 4, 1949). Second, they differed in several respects from the form approved by the Supreme Court (340 U. S. 76).

D. USG's decision not to appeal from the decree of November 7, 1949, "unless the Government appealed, in which event it felt it would be required [fol. 1751] to appeal, in self defense." Neither this

unacted upon decision not to appeal nor an appeal by the Government in any way affects this matter of purge. The two appeals (USG and the Government) involved entirely different legal issues and situations. USG appealed from the entry of any decree "on the ground of their right to introduce material evidence" (340 U. S. at p. 82); the Government appealed solely "in an effort to have the provisions of the District Court decree enlarged" (340 U. S. at p. 82).

E. The fact that the Supreme Court (339 U. S. 960) enjoined USG, on May 29, 1950, from "enforcing in any manner whatsoever" the price provisions of the license agreements. Thoe USG suits now pending show conclusively, however, that even now it is striving to enforce the royalty provisions of the illegal patent license agreements.

Neither taken separately nor cumulatively do any or all of these matters amount to evidence of purge by USG of its misuse of its patents.

23. In January, February or March, 1953, USG filed separate similar actions against four of the other corporate defendants in the Anti-trust action. These suits were against the National Gypsum Company, in the Northern District of Iowa; Certain-Teed Products Corporation, in the same District; Newark Plaster Company, in the District of New Jersey; and the Ebsary Gypsum Company, in the Southern District of New York. Each of these suits was based on alternative claims for royalties or for the reasonable value of the use of certain of its patents or for damages because of infringement. The time period covered by each of these four suits was, roughly, from the first opinion by the Supreme Court (March 8, [fol. 1752] 1948), to the date of the Final Decree (May 15, 1951), and, as to Newark and Ebsary, up to the filing of the complaint against each of them.

24. In these suits USG seeks judgment against National for $1,600,000; against Certain-Teed for $650,000; against Ebsary for $100,000 on Counts I and II and in the alternative $160,000 on Counts III, IV and V, and $85,000 on

Count VI; against Newark for $120,000 on Counts I and II and in the alternative $185,000 on Counts III, IV and V, and $100,000 on Count VI; and interest (except as to Counts V and VI) and costs of suit against each defendant.

25. USG also asserted claims against The Celotex Corporation and against Kaiser Gypsum Company for the alleged use of its licensed patents for the period from February 1 or March 1, 1948 to May 15, 1951.

26. The complaints filed by USG in the various District Courts contain five Counts each in the actions against National and Certain-Teed, and six Counts each in the actions against Ebsary and Newark.

27. The first two Counts of all four complaints are directly or indirectly based on the license agreements set forth in Article II of the decree of November 7, 1949.

28. Count III of the USG complaints is a common law action of *indebitatus assumpsit* based on a pleaded express contract. That contract and the relief sought are so stated and designed to bring about the identical recovery that would be realized had the actions been for recovery upon the royalties provided in the illegal agreements. The amounts sought in Count III of the Ebsary and the Newark suits are more than under Counts I and II thereof because of the different periods of time involved.

29. Count IV of the USG complaints is for *quantum* [fol. 1753] *meruit* covering the use of the patents.

30. Counts V and VI of the USG complaints allege infringement of USG's patents.

31. The amounts sought in Counts III-V of these suits for the period prior to the Final Decree are precisely the same as the amounts as measured by and sought as royalties in Counts I and II. In Counts I and II the amounts are sought to be recovered by means of enforcing the covenant to pay in the old unlawful license agreements.

32. The patent alleged to be infringed in the USG suits against National Gypsum Company and Certain-Teed Products Corporation is patent Roos No. 2,017,022. The USG suits against Newark Plaster Company and Ebsary

Gypsum Company allege in addition infringement of patents Roos Nos. 2,079,338; 2,080,009; and 2,044,401 for the period prior to and after May 15, 1951. All of the foregoing patents were licensed by USG under one or more of the patent licenses defined and enumerated in paragraph 5 of Article II of the Final Decree of May 15, 1951.

33. Application for patent No. 2,044,401 was filed by Roos on August 15, 1929 and later assigned to USG, to which the patent was issued on June 16, 1936. This patent related to the use of dextrinized starch in gypsum board core composition and method of manufacturing same. This patent was an improvement patent and, as such, was included as paragraph 18 of the licenses to Newark and Ebsary. (See transcript in the Supreme Court, October Term, 1947, No. 13, pp. 4416 and 4488).

34. Seasonably after entry of the Final Decree, National and Certain-Teed applied for and received licenses thereunder. Newark and Ebsary have never applied therefor. In the USG complaints against Newark and Ebsary, [fol. 1754] it seeks recovery (Counts I-II) for license royalties on patents covered by the old licenses—that recovery included only the period ending with the Final Decree. Each of the succeeding Counts sought recovery "to the date of filing this complaint."

35. Neither Newark nor Ebsary have filed answer in the USG suits. The Court was informed in this presentation that such answers would include a denial of use of these USG patents during the period subsequent to May 15, 1951. Such defenses would pose the direct issue of infringement *vel non* since the Final Decree.

36. The defendant in each of the four suits filed by USG, hereinabove described, has filed in this Court and as a proceeding in this case (Civil Action No. 8017) its separate petition to enjoin the USG suit against it and for assocated relief. Very broadly stated, these petitions are based on claimed protection of the Final Decree in the Anti-trust case, on misuse of patents, and on prevention of a multiplicity of actions. Stay orders have been entered in the two Iowa District cases to await action here.

We have no information of any similar action in the two other cases.

37. The United States has filed a petition to enjoin USG from asserting any claim or suit "in whole or in part on any of the license agreements adjudged illegal, null and void by the final decree of this Court entered on May 15, 1951, or on any provision thereof." As to any claim based on such license agreements, the United States alleges that such "are barred by, and constitute an attempt to defeat, said decree." As to any "alternative claims" set forth in such four suits, the United States "takes no position" as to whether or not they are barred by the Final Decree.

[fol. 1755] CONCLUSIONS OF LAW

1. Defendant Petitioners are parties to the original Anti-trust suit asserting rights under the Final Decree. Where a decree specifically or by fair implication accords rights to parties thereto, the parties have a standing to enforce such right in a manner consonant with the underlying purposes of the decree. Petitioners have standing to apply to this Court for enforcement, construction or the carrying out of the Final Decree.

2. This Court has jurisdiction to entertain and determine the issues presented by Petitioners because such jurisdiction is expressly reserved by Article X of the Final Decree.

3. In addition to such expressly reserved jurisdiction, this Court has jurisdiction to entertain and determine the issues presented by Petitioners based on the inherent power of a court of equity to compel obedience to its decrees. Where it is seriously contended, as here, that the suits brought by USG do violate the Final Decree, this Court has jurisdiction to determine whether such violation exists; and, if it does exist, how it may be cured.

4. This Court has jurisdiction to entertain and determine the issues presented by Petitioners based on its jurisdiction to implement the Final Decree to effectuate its basic purposes. One method of seeking such implementation is by petition in the original action.

5. This Court has jurisdiction to entertain and deter-

mine the issues presented by Petitioners based on the long-established discretionary jurisdiction of an equity court to prevent multiplicity of actions. Such jurisdiction [fol. 1756] is present here because of the four present suits by USG and also the claims against Celotex and Kaiser. The matter of possible misconstruction or diversity of construction of the Final Decree is a reason for taking jurisdiction where there is a claimed multiplicity of actions, each involving the meaning and application of the Decree and affecting the complete effectiveness of the Decree.

6. It is not controlling as to the existence of jurisdiction that Petitioners might urge the Final Decree as a defense in the USG suits. That fact does not affect the existence of jurisdiction in this Court. It is relevant merely on the question whether this Court, in its discretion, should exercise such jurisdiction instead of leaving the issues to be determined in the USG suits.

7. Article IV of the decree of November 7, 1949 nullified completely the license agreements listed in Article II. This nullification did not create a status. It simply declared a status which had existed since the granting of the patent licenses. Article IV passed into the Final Decree unchanged. Accordingly USG should be enjoined from further prosecuting the first two Counts in each of the four suits brought by it against the Petitioners, since these Counts clearly violate the express provisions of Article IV.

Article IV of the Final Decree did not expressly nor impliedly cover the character of suits now brought by USG for infringement or for *indebitatus assumpsit* or for *quantum meruit*. It neither allowed nor forbade such.

8. The purpose and permissible function of an order for modification of an anti-trust decree is to cover something within the broad purposes of the decree but which, for some proper reason, was not included in the existing decree. Almost always such modifications are concerned [fol. 1757] with remedies. Usually they concern situations which were either overlooked at the time the decree was entered or which have arisen or developed after the decree.

9. The power to make any proper modification of the Final Decree is expressly reserved in Article X. That Article performed the function of expressly reserving jurisdiction to take further action, if experience thereafter should make such necessary are advisable, fully to effectuate the purposes of destroying the monopoly and the conspiracy and denying the fruits thereof. The Court has power to make any modification which will, "so far as practicable, cure the ill effects of the illegal conduct . . ." (340 U. S. at pp. 88-89)

10. In addition to such expressly reserved power, this Court as a court of equity has inherent power to modify its decrees so as to make them fully effective, provided, however, that the decree may not be enlarged beyond its intended proper scope by the medium of modification.

11. The course of conduct of USG, as clearly shown by the proceedings of record in the Anti-trust case and in these suits by USG, establish that USG did not purge itself of its patent misuse at any time prior to May 15, 1951. The five acts claimed by USG to constitute acts of purge prior to May 15, 1951 do not constitute purge

12. In view of the misuse by USG of its patents as a matter of law on the facts here, which has not been purged, all claims of USG are barred, and USG should be enjoined from further prosecution of all Counts of these actions.

13. The course of conduct of USG, as clearly shown by the proceedings of record in the Anti-trust case and in the suits by USG, must be construed as meaning that USG has continued after May 15, 1951 to misuse its patents by seeking recovery, directly and indirectly, on the [fol. 1758] illegal license agreements up to this time. The attempt by USG to enforce the royalty provisions of the illegal patent license agreements is clear misuse of its patents; such misuse yet continues; and to allow prosecution of these suits, would weaken the effectiveness of the Final Decree.

14. Count III of the USG petitions, for *indebitatus assumpsit,* is but a left-handed, indirect method for recovering the royalties provided in the illegal license agree-

ments. The Decree should be modified to enjoin prosecution of Count III of the USG petitions.

15. Count IV of the USG petitions, the *quantum meruit* Counts, are enjoined on the basis of preventing recovery in a multiplicity of suits wherein the misuse of the patents which were involved in this Anti-trust suit is shown, as a matter of law, to exist and not to have been purged.

16. Both because of the practical nad legal situation in this case, and, also, the teaching in the *Hartford-Empire* case, the Final Decree should be modified to cover prohibition from prosecuting the USG suits insofar as they are based on patent infringement during the period covered by those suits.

ORDER ADOPTING FINDINGS AND CONCLUSIONS

The foregoing thirty-seven Findings of Fact and the foregoing sixteen Conclusions of Law are found and adopted by a majority of the Court. Except as contained, in substance, in the foregoing, all requests or proposals for Findings or for Conclusions are denied.

Dated this 9th day of December, 1954.

Kimbrough Stone, Judge, Eugene Worley, Judge

[fol. 1759] ORDER OF COLE, J. (Disseintng)

For the reasons stated in the dissenting opinion filed herein on July 6, 1954, I dissent from the foregoing Findings of Fact and Conclusions of Law and think these actions by Petitioners should be dismissed for lack of jurisdiction.

William P. Cole, Jr., Judge

[fol. 1760] [File Endorsement Omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

No. 8017 Civil

UNITED STATES OF AMERICA Plaintiff,

v.

UNITED STATES GYPSUM COMPANY, ET AL., Defendants

In re Petitions of NATIONAL GYPSUM COMPANY, ET AL., Petitioners, v. UNITED STATES GYPSUM COMPANY, Respondent.

DECREE—December 9, 1954

Petitions having been filed in this Court by defendants National Gypsum Company, Certain-Teed Products Corporation, Newark Plaster Company, and Ebsary Gypsum Company, Inc., on March 25, April 22, May 13, and June 3, 1953, respectively, for orders, modifications or directions for the enforcement, construction, or carrying out of the Final Decree of May 15, 1951 and

Plaintiff United States of America, having filed on June 30, 1953 its petition for order or directions for the construction, carrying out or enforcement of the Final Decree of May 15, 1951, and

Defendant United States Gypsum Company, having filed on September 8, 1953 separate answers to each of the above petitions, and

The Court, having read and considered said petitions and answers, and having heard the oral arguments of Counsel for all of the above parties on January 12 and 13, 1954, and having read and considered the briefs filed by them, and having rendered its majority and dissenting opinions on July 6, 1954,

[fol. 1761] It is therefore ordered, adjudged and decreed:

1. This Court has jurisdiction of the subject-matter of said petitions and of the parties hereto.

2. The Final Decree of this Court of May 15, 1951 is

hereby modified by adding to Article V thereof a paragraph reading:

> Defendant United States Gypsum Company is hereby ordered and directed to discontinue and to dismiss, with prejudice to United States Gypsum Company, its pending actions as follows: against National Gypsum Company, in the United States District Court for the Northern District of Iowa; against Certain-Teed Products Corporation, in the same District Court; against Newark Plaster Company, in the United States District Court for the District of New Jersey; and against Ebsary Gypsum Company, Inc., in the United States District Court for the Southern District of New York.

3. Costs arising out of these proceedings instituted by Petitioners shall be assessed against United States Gypsum Company.

Dated this 9th day of December, 1954.

Kimbrough Stone, Judge, Eugene Worley, Judge

For the reasons stated in the dissenting opinion filed herein on July 6, 1954, I dissent from the foregoing Decree and think these actions by Petitioners should be dismissed for lack of jurisdiction.

William P. Cole, Jr., Judge.

[fol. 1762] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

MOTION OF U. S. GYPSUM CO., FOR NEW TRIAL—
Filed December 20, 1954

Comes now United States Gypsum Company, hereinafter referred to as U. S. Gypsum, by its attorneys, and pursuant to Rule 59 of the Federal Rules of Civil Procedure, moves

the court to set aside the Findings of Fact and Conclusions of Law and Decree entered herein on the 9th day of December, 1954, and to grant defendant, U. S. Gypsum, a new trial on the grounds that:

1. The court erred in ruling that U. S. Gypsum, in seeking compensation for the use of its patents, has, as a matter of law, continued to misuse them up to this time (Majority Opinion filed July 6, 1954, hereinafter referred to as Op., pp. 34, 35 and 38; Conclusions of Law, hereinafter referred to as C. L., 11, 12, 13, 14 and 15).

[fol. 1763] 2. The court erred in ruling, without the taking of any evidence, that U. S. Gypsum has not purged its patent misuse and that, as a matter of law, certain facts of record do not show purge (Op. pp. 33-38; Findings of Fact, hereinafter referred to as F. F., 22, 22A, 22B, 22C, 22D and 22E; C. L. 11, 12, 13 and 15).

3. The court erred in ruling that the Final Decree of May 15, 1951, should be expanded beyond its basic purposes, and new rights created in the co-conspirator licensees, in disregard of the position of the Government (Op. pp. 4, 6, 25, 27, 32, 38; F. F. 6 and 7; C. L. 1-6, inc. and 9).

4. The court erred in ruling that the *Hartford-Empire* decision (323 U. S. 386 and 324 U. S. 570), and the practical and legal situation in this case required the denial of U. S. Gypsum's right to recover for infringement of its patents *pendente lite* (Op. pp. 27-32; F. F. 6 and 7; C. L. 16).

5. The court erred in ruling that because of its erroneous continued misuse ruling hereinbefore set forth in paragraph 1, U. S. Gypsum should be enjoined from prosecuting its *quantum meruit* counts in its pending suits against the defendant petitioners (Op. pp. 34, 35, 38; F. F. 22; C. L. 11-15, inc.)

6. The court erred in ruling that Count III in each of the pending U. S. Gypsum suits against the defendant petitioners is an action based on an express contract and designed to recover indirectly the royalties provided for in the illegal license agreements (Op. p. 32; F. F. 28; C. L. 14).

[fol. 1764] 7. The court erred in ruling that the Final Decree of May 15, 1951 should be amended by enlarging it to include a paragraph ordering U. S. Gypsum to dismiss, with prejudice, its pending actions against defendant petitioners (Op. pp. 25, 32, 38; C. L. 11-16, inc.; Decree of December 9, 1954).

8. The court erred in ruling that it has jurisdiction, and should exercise it, to grant the relief sought by the defendant petitioners (Op. pp. 7, 11, 25; C. L. 1-6, inc; Decree of December 9, 1954).

9. The court erred in its Findings of Fact numbered 5, 6, 7, 10, 20, 21, 22, 22A, 22B, 22C, 22D, 22E, 25, 28, 31, 32 and 33, respectively, in that they are contrary to the evidence and to law.

10. The court erred in its Conclusions of Law numbered 1, 2, 3, 4, 5, 6, 9, 11, 12, 13, 14, 15 and 16, respectively, in that they are contrary to law.

11. The decree of December 9, 1954, is contrary to law in that it is based upon and incorporates the erroneous rulings of the court hereinbefore set forth in paragraphs 1 through 10 hereof.

Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., Attorneys for Defendant, United States Gypsum Company, 1625 K Street, N. W., Washington 6, D. C.

[fol. 1765] CERTIFICATE OF COUNSEL

I, Cranston Spray, one of the attorneys for the defendant, United States Gypsum Company, do hereby certify that the foregoing motion for new trial is presented in good faith and not for delay.

Cranston Spray.

[fol. 1766] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

POINTS AND AUTHORITIES IN SUPPORT OF UNITED STATES GYPSUM COMPANY'S MOTION FOR NEW TRIAL FILED DECEMBER 20, 1954.—Filed January 7, 1955.

United States Gypsum Company, hereinafter referred to as U. S. Gypsum, submits the following specific points of law and authorities and argument in support of its motion,* pursuant to Rule 59 of the Federal Rules of Civil Procedure, that the court set aside the findings of fact, conclusions of law and decree entered herein on the 9th day of December, 1954, and grant it a new trial because of the [fol. 1767] manifest errors of law and of fact as set forth in its said motion and as hereinafter more fully considered.

I

The Court Erred in Ruling That U. S. Gypsum, in Seeking Compensation for the Use of Its Patents, Has as a Matter of Law Continued to Misuse Them Up to This Time.

The majority opinion* rendered herein on July 6, 1954, and the conclusions of law numbered 11, 12, 13, 14 and 15, entered on December 9, 1954, erroneously hold that a continuing unpurged misuse of U. S. Gypsum's patents exists, as a matter of law, because it seeks compensation from its co-conspirators for their use of its patents. As a consequence the court concludes that U. S. Gypsum should be enjoined from further prosecution of all counts of its pending suits against the defendant petitioners.

This determination cannot be based on any evidence as

* For the court's convenience, a copy of U. S. Gypsum's Motion for New Trial is set forth in Appendix A hereof.

* Unless specifically shown otherwise, all references hereinafter made to the opinion of this court will be to the majority opinion filed on July 6, 1954, by "Op. p." followed by a page number. This court's findings of fact are referred to herein by "F/F" and its conclusions of law by "C/L."

to the factual situation existing during the 1948-1951 period here involved, or for many years prior thereto. Not only did the evidence in the original antitrust proceeding stop with the year 1941, but no evidence has been received by this court on the issues as to patent misuse and purge raised by the 1953 petitions and U. S. Gypsum's answers thereto.

Nor can this determination be based upon any claim that U. S. Gypsum is now using its patents to fix, maintain or stabilize prices, or to monopolize trade and commerce in the gypsum industry, by license agreements or by other acts or courses of action, or is attempting to enforce the price limitation provisions of the old patent license agree-[fol. 1768] ments. In fact, there is not an iota of evidence that U. S. Gypsum exercised or attempted to enforce any of those price limitation provisions since 1941. Moreover, during a substantial part of the 1948-1951 period here involved, all of the defendants, including U. S. Gypsum and the petitioners, were effectively restrained by injunctive orders of this court and of the United States Supreme Court against any misuse of patents by operation under the price limitation provisions of the old license agreements. No suggestion has been made that any of the injunctive provisions of the decrees of this court, or of the Supreme Court's order, has been violated in any manner.

Rather, this court has taken the erroneous position that because U. S. Gypsum has brought suits in 1953 to recover money for the actual use of its patents, for which compensation has not heretofore been paid, such a money action in some way constitutes a continued misuse of its patents. This determination apparently rests upon the facts, *first*, that these suits included two counts (*i.e.* Counts I and II) seeking to recover royalty under the illegal license agreements, and *secondly*, that the other alternate and inconsistent counts in these suits sought compensation in a like amount as that claimed under Counts I and II. This erroneous determination is not supported by any precedent and is violative of a number of well established legal principles.

(a) *The authorities.* Needless to say, the court, in its opinion, cites no authority for its continued misuse ruling. We know of no other case wherein it has been held that the mere bringing of a suit to recover money alleged to be due under an unlawful license agreement, and in the alterna-

tive compensation for use of patents, constitutes without more misuse of a patent as a matter of law. It is an entirely novel proposition in support of which no authority [fol. 1769] can be cited. Actually, the only decision we are aware of is to the contrary. In *Park-In Theatres, Inc.* v. *Paramount-Richards Theatres, Inc. et al.* (D. C. D. Del. 1950), 90 F. Supp. 730 (aff'd 185 F. 2d 407; cert. den. 341 U. S. 950), the complaint alleged two causes of action; one for an accounting for royalties on a licensed agreement, and a second, in the alternative, for infringement. The court rejected defendants' motion for summary judgment on the infringement count even though it found that the existence of the license, the basis of the first count, constituted misuse. The court held that the issue of purge involved questions of fact which precluded granting summary judgment. It did not consider that the mere inclusion of a count on the license was misuse as a matter of law.

(b) *The patent law codification.* The continued misuse ruling conflicts with the proposition that a suit to enforce a patent right is not *per se* against public policy, which is now conclusively established by the new codification* of the patent laws providing (Title 35 U. S. Code, Sec. 271(d)):

> "No patent owner otherwise entitled to relief for infringement * * * shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: * * * (3) sought to enforce his patent rights against infringement or contributory infringement."

A patentee's right to grant a license (immunity from suit for infringement) and receive compensation therefor is clearly an enforcible right within the meaning of the new codification. Since it is the declared public policy that the mere bringing of a patent infringement suit is not misuse, then *a fortiori* a suit on a license agreement (such as Counts I and II) solely for the recovery of money does not in itself constitute misuse.

---

* This codification went into effect on January 1, 1953. The U. S. Gypsum suits were filed thereafter.

[fol. 1770] (c) *The final decree and other orders.* The continued misuse ruling is inconsistent with the final decree entered in this case on May 15, 1951. If that decree established anything as regards rights between the various defendants, it was that although the petitioners should have the right to continued use of U. S. Gypsum's board patents, U. S. Gypsum was entitled to a reasonable compensation for such continued use.

U. S. Gypsum's suits have not relied upon or attempted to enforce any of the price limitation provisions of the condemned license agreements, which were the heart of the adjudication of their illegality. Obviously, there is no concerted action of co-conspirators involved in the bringing of the suits. All that U. S. Gypsum seeks is fair compensation for the use of its patents, which is not only entirely consistent with the provisions of the final decree of May 15, 1951, but also with the comparable provisions of the November 7, 1949 decree, and with the injunctive provisions of the Supreme Court order of May 29, 1950, enjoining *only the price limitation provisions* and not the old license agreements in their entirety, as the opinion erroneously states a number of times.*

---

* The opinion says on page 16 that Article IV of the November 7, 1949 decree nullified completely the old license agreements and that the Supreme Court order of May 29, 1950, made Article IV effective *pendente lite* "by enjoining any continued performance thereunder"; on page 20, that the Supreme Court dismissed the defendants' appeal, affirmed Article III and "entered an injunction against 'enforcing in any manner whatsoever' the license agreements"; on page 29, that this injunction "expressly forbade defendants from 'enforcing in any manner whatsoever' the existing license agreements and this status was thereafter continued up to the final decree"; and on page 34 that it "enjoined defendants 'from enforcing in any manner whatsoever the provisions of their current license agreements * * *'. This order * * * was continued in force until the Final Decree." A careful reading of the Supreme Court order of May 29, 1950 (Op. pp. 2-3) will establish this court's misunderstanding of its scope and effect which obviously influenced the decision of the court in this proceeding.

U. S. Gypsum's suits, being simple suits to recover money for the actual use of its patents, could not possibly be said to constitute patent misuse. Even if Counts I and II be held to conflict with Article IV, as this court concluded (Op. p. [fol. 1771] 16; C/L 7), there is no basis for holding that such a violation, involving as it did only an attempt to collect money for the actual use of the patents, constituted patent misuse such as would prevent recovery of compensation upon alternative and inconsistent statements of claim. To so hold is to inject a principle, without benefit of any evidence, inconsistent with the court's prior determination that U. S. Gypsum was entitled to be compensated for the continued use of its patents by the petitioners.

(d) *Federal Rules of Civil Procedure.* The continued misuse ruling violates the rules of modern pleading and penalizes U. S. Gypsum for following the Federal Rules of Civil Procedure, Rule 8(e)(2) of which provides:

> "A party may set forth two or more statements of a claim or defense alternately or hypothetically, either in one count or defense or in separate counts or defenses. When two or more statements are made in the alternative and one of them if made independently would be sufficient, the pleading is not made insufficient by the insufficiency of one or more of the alternative statements. A party may also state as many separate claims or defenses as he has regardless of consistency and whether based on legal or on equitable grounds or on both. * * *"

When U. S. Gypsum's complaints against National, Certain-teed, Ebsary and Newark were being drafted, U. S. Gypsum was faced with the very real problem, in view of the unique factual situation, of stating proper theories of action upon which recovery for the use of its patents, with or without permission, could be had. If the facts to be subsequently proved, and the law applicable thereto, showed that the defendant had used those patents without license, U. S. Gypsum could recover on its infringement count. If the defendant had a license, then there could be no recovery for infringement, but only on counts based upon such licenses as might be proven to exist. But there

[fol. 1772] was a further question as to what licenses or kind of licenses, if any, might be found in fact and in law to exist, upon which the defendant might rely. It was possible that a defendant might defend by pleading it was licensed during the period in question under the old license agreements declared illegal in the final decree, as National actually did in its Eighth Defense to the infringement count in the Iowa suit.* In anticipation of such a defense, U. S. Gypsum felt compelled to include Counts I and II lest the court rule that it failed to plead a proper basis for its claim (6/9/53 Hearing, Tr. 24-25; U. S. G. B.** pp. 86, 99). It was a proper and necessary precautionary measure, authorized by the Federal Rules of Civil Procedure. No authority or precedent has ever suggested that such caution in pleading could possibly constitute evidence of continued misuse of a patent, as a matter of law, particularly when the various counts only assert money claims for royalties or compensation for the actual use of the plaintiff's patents.

Apparently misunderstanding U. S. Gypsum's position, the opinion states (p. 16):

> "* * * We are not impressed by the contention of U. S. G. that these two Counts are necessary or useful to meet possible factual situations which might arise in the trials of these suits. Those Counts state definitely grounds for claimed relief and must be so regarded. * * *"

Of course, they state grounds for claimed relief, and were so intended. All U. S. Gypsum has attempted to do in its now pending suits is to recover a reasonable royalty or compensation for the use of its patents, with or without its permission, upon whatever theory the trial court might determine to be appropriate. If Counts I and II were held [fol. 1773] to be without merit, the worst consequence should be the dismissal of those counts. In holding that

---

* National's amended answer (pp. 20-21), a copy of which was filed with this court pursuant to its request.

** Brief of U. S. Gypsum filed herein on September 8, 1953 will be referred to by "U. S. G. Br. p." followed by a page number.

U. S. Gypsum thereby forfeited its right to recover for the use of its patents, this court has severely penalized it for pleading alternate and inconsistent claims in accordance with the Federal Rules of Civil Procedure. Such a penalty is unfair and unnecessary. It has no justification in a court of equity.

(e) *The quantum meruit and infringement counts.* The continued misuse ruling shows further misunderstanding of the facts and the law in seeming to attach the stigma of misuse of patents to the counts other than Counts I and II (Op. pp. 32, 34-35; F/F 27, 28, 31; C/L 7, 11, 13-16). Thus, the court erroneously states that the other counts are "posed on the same underlying factual situation created by the license agreements," and it treats the similarity in the *ad damnum* as significant (Op. pp. 32, 34-35). It even attaches significance to the prayer for damages in the infringement count, where statutory language was used.

There is no basis for the statement that all of the counts were posed on the same underlying factual situation; actually, they were based upon inconsistent theories and factual situations. In attaching significance to the similarity of the *ad damnum* clauses, the court overlooks the well accepted principle of patent law that where parties, as in this case, have established a rate of royalty for the use of a patent in arm's length negotiations, not only prior to the period involved but also subsequently thereto (as was done here by National and Certain-teed in the licenses taken after the May 15, 1951 decree), that royalty rate serves to establish the reasonable compensation for the use of the patent, and the patentee cannot expect to be able to recover more (See U. S. G. Br. pp. 81-83). Moreover, the court fails to appreciate that the quantity of board on [fol. 1774] which compensation for use of the patent would be collectible was bound to be the same in each count covering the same period of time, for U. S. Gypsum was only suing for the *actual use* of its patents and only attempting to recover compensation on gypsum board actually embodying the claims of its patents or made by the use of such patents. It did not seek recovery (even in Counts I

and II) of the royalty provided for in the old license agreements, *i.e.*, 1% of the selling price of all board for the privilege of using the patents, whether or not they were used. If the patents were used at all, the damages in each such count were bound to be the same. There is no merit in the conclusion that the similarity in the *ad damnum* evidences an attempt to recover indirectly, on counts other than Counts I and II, the royalty provided for in the old license agreements.

The continued-misuse-as-a-matter-of-law ruling is clearly wrong. The findings of fact, conclusions of law and decree entered December 9, 1954, based on that ruling, are equally erroneous and should be set aside.

II

The Court Erred in Ruling, Without the Taking of Any Evidence, That U. S. Gypsum Has Not Purged Its Patent Misuse and That as a Matter of Law Certain Facts of Record Do Not Show Purge.

A second basic error in the opinion of July 6, 1954, and the findings, conclusions and decree entered December 9, 1954, lies in the determination that the earlier misuse of U. S. Gypsum's patents as a matter of law has not been purged (Op. p. 34; F/F 22A-22E; C/L 11-13, 15). This conclusion is reached despite the fact that the court would deny U. S. Gypsum any opportunity of presenting evidence of a purging of the misconduct with which it is charged, [fol. 1775] and apparently results from the court's misconstruction of U. S. Gypsum's contentions regarding certain evidence of purge already in the record.

(a) *Denial of right to be heard.* The question of purging of patent misuse necessarily involves a factual inquiry into the circumstances of the particular case and cannot be decided as a matter of law until all of the pertinent facts are known (U. S. G. Br. pp. 131-134). The court has erroneously overlooked this established principle. It also fails to recognize the fact that the record before it was compiled over twelve years ago and that all issues which have been previously decided in this case were based upon facts which existed when the Government's complaint was filed in August 1940.

Admittedly, no issue of purging was ever presented to this court prior to the filing of the petitions and answers thereto in 1953, and although issues with respect thereto were squarely raised by the 1953 petitions and answers, no evidence on those issues has ever been presented.

In addition to the record facts bearing on the question of purge, there are a number of other factual issues raised by the 1953 petitions and the answers thereto on which U. S. Gypsum has never had its day in court. The opinion would effectively preclude U. S. Gypsum from ever showing, for example, that in fact not only a decade of time but also an intervening war had caused the effects of any earlier patent misuse to have been wholly dissipated prior to May 15, 1951. It would preclude U. S. Gypsum from ever offering its evidence to prove that shortly after the first Supreme Court decision in March 1948, when the co-conspirator licensees repudiated their licenses, it acquiesced in that repudiation—evidence compelling the conclusion that the offending license agreements were cancelled by mutual consent at that time, clearly establishing purge.

It is unfair and inequitable now to deprive U. S. Gypsum [fol. 1776] of its day in court by undertaking to determine the purge issue, a factual determination, without a full consideration of all pertinent evidence. U. S. Gypsum's answers to the petitions have raised material issues of fact which cannot be resolved against it as a matter of law without such a factual inquiry. That the presence of such factual issues calls for evidence and not a summary judgment is well established by the authorities (See U. S. G. Br. pp. 131-134).

(b) *Misconstruction of purge contentions.* Understanding that factual issues, including that of purge, would be subsequently proved after preliminary legal questions had been decided (see 6/9/53 Hearing, Tr. 6, 8, 9, 29-31; see also, National's brief filed herein, pp. 67-68), U. S. Gypsum nevertheless contended (U. S. G. Br. pp. 134-140) that there were certain facts already of record which constituted evidence of purge at a time prior to May 15, 1951, sufficient not only to preclude a conclusion against it, as a matter of law, but even to resolve the purge issue in its favor. It discussed five such facts of record with the express reser-

vation that they were "only illustrative and not the only or exclusive facts showing purge." The purpose of U. S. Gypsum's reservation in its brief was to make it clear that reference was made only to matters already of record and not to other factual issues of purge raised by the 1953 petitions and answers thereto (See U. S. G. Br. p. 134). It was certainly not its intention to submit those five points as the only evidence that would be offered on an actual trial of that particular issue, which had not heretofore been before the court, in the event the court determined that it had and should exercise jurisdiction. But this court's treatment of these five facts as the only evidence of purge has brought about a wholly erroneous and inequitable result.

(1) In the first place, the court completely misses the point of one fact of purge relied on as a reason why this [fol. 1777] court could not conclude the issue of purge against U. S. Gypsum, as a matter of law, and why it should rule in its favor, *i.e.*, that on November 7, 1949 this court's decree was entered adjudicating the old licenses to be illegal, null and void, and enjoining their performance or enforcement (U. S. G. Br. p. 135; Op. p. 37; F/F 22D). The effect of this fact is readily apparent from the court's determination in another connection (Op. p. 16; C/L 7) that "Article IV of that decree [of November 7, 1949] nullified completely the license agreements listed in Article II." It was further recognized by the court's rejection of the sentence in the petitioners' proposed finding 15 that the decree of November 7, 1949 "never became effective." (See F/F 15, as proposed, and as entered 12/9/54). It was the effect of the decree itself, and not the incidental fact that U. S. Gypsum had decided not to appeal from the decree, that was relied upon by U. S. Gypsum. The court's reference to the incidental fact of U. S. Gypsum's decision not to appeal overlooks the facts that *first,* it was claimed in the Certain-teed brief filed herein (p. 53) that the November 7, 1949 decree did not constitute a purge because U. S. Gypsum appealed from it, and *second,* it was only to meet such a contention that the argument, erroneously referred to by the court as the fourth fact, was made.

(2) One of the important acts of purging shown of record was U. S. Gypsum's repeated offers of new licenses to the various defendants in 1949. These new licenses were untainted with any improper provisions in so far as the matter of patent misuse is concerned. The 1949 decree approved a form of license which for all intents and purposes is the same as that which U. S. Gypsum's licensees were offered in 1949 and which National and Certain-teed accepted for the period after May 15, 1951. Moreover, the form of license approved by the 1949 decree differed [fol. 1778] from that approved by the final decree only in respect of requirements in the latter: (1) that licensees' reports need not show any breakdown with respect to thickness and size of board; and (2) that verification of licensees' reports be made by an independent auditor or a person acceptable to both parties who should report only the amount of royalty due.

Can it be that such incidental changes made in the licenses can give rise to a plain legal implication that these changes were necessary in order to block effectually continued misuse by U. S. Gypsum of its patents? Definitely not, and the Supreme Court's decision (340 U. S. 76, 94-95) demonstrates that the provisions were not of such a character. Price fixing and all other objectionable features being removed, the proffered licenses were innocuous and legal in every respect, and the failure of National, Certain-teed, Newark and Ebsary to accept them should not operate to deprive U. S. Gypsum of the purging effect of its good faith offer.

In rejecting U. S. Gypsum's offer of new licenses as evidence of purge, because they differed slightly from the form approved in the final decree, the court states that the Supreme Court had found the definition of gypsum board* and also the time limit for applying for new licenses too restricted (Op. p. 37). That criticism of the compulsory licensing provisions of the November 7, 1949 decree of course, had nothing whatsoever to do with the purging effect of U. S. Gypsum's earlier offer to replace all of its

---

* U. S. Gypsum agreed with this view (340 U. S. 76, 90), so there was no issue as to that point.

outstanding licenses with new licenses from which the objectionable clauses had been deleted.

The court finds that the proffered licenses were not intended to become effective until the entry of the decree, since it was not until then that the old agreements were [fol. 1779] to be cancelled and terminated (Op. p. 37; F/F 22C). U. S. Gypsum's offer of new licenses was not so limited, as appears from the proffered forms of license agreements filed with the court (see also 6/14/49 hearing, Tr. 8257-60). The proposed decretal provision cancelling the old license agreements was merely designed to dispose of, once and for all, any vestige of those agreements which had been replaced with new licenses. It cannot factually be given the fallacious significance attached to it by the court. In any event, the old license agreements were "nullified completely" by the November 7, 1949 decree (Op. p. 16; C/L 7).

(3) The court clearly erred in disposing of the contention that the abandonment of the old license agreements demonstrated purge (Op. pp. 36-37; F/F 22B). It finds (Op. pp. 28, 30) that the licensees abandoned the license agreements following the first Supreme Court decision on March 8, 1948. But it disposes of the averment set up in Count III of the pending suits that U. S. Gypsum "acquiesced" in that abandonment, by determining the issue without the benefit of evidence (Op. p. 36; F/F 22B). As this was a factual issue, not only in the Iowa suits but also before this court, it should not have been adjudicated without affording U. S. Gypsum the opportunity to prove its averment.*

(4) The court's rejection of the Supreme Court injunctive order of May 29, 1950, as showing purge, is premised upon its erroneous conclusion that U. S. Gypsum is still misusing its patents by the mere bringing of the

---

* Counsel's statement referred to in fn. 17 (Op. p. 36) does not furnish a sound basis for conclusively determining the "acquiescence" issue against U. S. Gypsum; nor could that issue be concluded by the fact that in 1949 all parties were suggesting a final disposition of the old license agreements by providing for their cancellation in the decree.

suits to recover money for their use (Op. pp. 37-38; F/F 22E), a wholly novel and unsupportable doctrine. A further fallacious conclusion is contained in footnote 18 of [fol. 1780] the opinion (p. 38), stating that it is not material to the issue of purge that the injunction went beyond price fixing and extended to arranging the terms and conditions of sale of gypsum board. This injunction (which on the remand on the Government's appeal was "continued in effect until the entry of the final decree." Op. p. 3; F/F 18) was intended to and did operate as an effective bar to further misuse of U. S. Gypsum's patents *pendente lite* and, unless it was violated (which is not here questioned), is certainly evidence of purge as of that date.

(5) Finally, the court shows a misunderstanding of U. S. Gypsum's contention regarding the non-use of the price limitation provisions of the old licenses since 1941. Certainly such non-use is evidence of purge, and is particularly material on the dissipation of the illegal effects of the patent misuse.

The court's rejection of the purge facts of record is further erroneous in ignoring their cumulative effect. It is shocking that a court of equity would permit co-conspirators free use of U. S. Gypsum's patents, despite U. S. Gypsum's ten years non-use of price limitation provisions of the old licenses, the abandonment of those agreements by the parties, U. S. Gypsum's repeated offer of new, legally unobjectionable licenses, and the injunctions (respected and adhered to by U. S. Gypsum and its licensees) of this court and of the Supreme Court against misuse of the patents during much of the pertinent period. Assuming, *arguendo,* that these facts do not establish purge, as the opinion concludes, they are certainly sufficient, when taken with the other facts put in issue by the 1953 petitions and answers thereto, to prevent a summary judgment of non-purge, which is what this court's ruling amounts to.

This is made amply clear by the final decree of May 15, 1951 itself, the entry of which was not the first fact that [fol. 1781] dissipated the effects of patent misuse. If such misuse had not already ceased and its ill effects been dissipated, then the decree would have contained, as did the

*National Lead** decree, for example, provisions enjoining U. S. Gypsum from enforcing its patents prior to the final decree. Despite the Government's second appeal solely for the purpose of enlarging the decretal remedies, the Government included no request for an injunction against enforcement of U. S. Gypsum's patent rights.

The Court has committed manifest error in summarily disposing of the purge issues raised by the 1953 pleadings as a matter of law and without the benefit of evidence.

III.

The Court Erred in Ruling That the Final Decree of May 15, 1951, Should Be Expanded Beyond Its Basic Purposes, and New "Rights" Created in the Co-conspirator Licensees, in Disregard of the Position of the Government.

Neither the petitioners nor the court can point to any provision of the final decree, other than Article IV, as furnishing any basis for the claim that the suits brought by U. S. Gypsum were violative of the provisions of that decree. None of the injunctive provisions in any way prohibited U. S. Gypsum from recovering for the use of its patents, and the compulsory licensing provisions assured it a reasonable compensation for such use (Articles V and VI). The court concedes that Article IV does not, either expressly or by fair implication, cover the counts in U. S. Gypsum's pending suits other than Counts I and II, and that if the other counts are to be enjoined it must be by modification of the decree (Op. p. 25; C/L 7).

Although recognizing unequivocally that any modification of the decree must be within the basic purpose of the [fol. 1782] decree as originally entered (Op. p. 25; C/L 4, 10), the court violates this principle by approving amendments establishing new "rights" in the co-conspirators National, Certain-teed, Ebsary and Newark, in disregard of the position of the Government.

---

* *United States* v. *National Lead Co.*, 63 F. Supp. 513 (S. D. N. Y., 1945), Aff'd 332 U. S. 319 (1947).

(a) *The basic purpose of the final decree.** The original proceeding was brought by the Government charging an antitrust violation by reason of the defendants' activities in the manufacture and sale of gypsum products, carried out in part under the guise of patent license agreements entered into by U. S. Gypsum, as licensor, and by National, Certain-teed, Ebsary, Newark and others, as licensees (1947 R. 1, 10-11). That litigation resulted in an adjudication that the defendant companies had acted in concert in restraint of trade and commerce to fix, maintain and control the prices of gypsum board, and had monopolized trade and commerce in the gypsum board industry in violation of Sections 1 and 2 of the Sherman Act. This adjudication, contained in Article III, is as this court's opinion states, "the heart of the final decree" (p. 27).

The basic purpose of the decree, then, was to give the Government adequate relief to prevent agreements or understandings in the future resulting in Sherman Act violations through license agreements or other acts or courses of action (see Arts. IV, V and VI of the decree; U. S. G. Br. Appen. vi-x). No suggestion has been made that the provisions of the decree have in any way failed to accomplish that purpose, and the Government, the sole spokesman for the public interest (*Buckeye Coal & Railway Co., et al.* v. *Hocking Valley Railway Co., et al.*, 269 U. S. 42; Judge Cole's dissenting opinion, p. 1), and the only party plaintiff in this case, has clearly stated its [fol. 1783] position with respect to the claims of the defendant petitioners for modification. The Government states that the purport of Article IV, in declaring the old license agreements illegal, null and void, was to bar enforcement of any claim based on those agreements and that U. S. Gypsum should be enjoined from prosecuting Counts I and II of its pending suits. But, the Government expressly states that it takes no position as to whether U. S. Gypsum's alternative claims for recovery on a *quantum meruit* basis, or for infringement, are barred by the final decree or as

---

* For a more complete statement of the basic purpose of the decree, reference is made to U. S. G. Br. pp. 56-61.

to whether this court should enter an order enjoining prosecution of such alternative claims. The Government, which brought the suit, and alone represents the public interest, is apparently satisfied that the case should not be encumbered with extraneous issues of a private nature,* and that to modify the decree to enjoin the determination of those issues in the courts wherein they are pending is to expand the decree beyond its original purpose. If the Government believed that a modification of the decree to enjoin prosecution of the *quantum meruit* and infringement counts were necessary or appropriate to carry out the basic purpose of the decree, it would certainly have taken that position before this court.

The court nevertheless approves a modification of the decree (C/L 12-16; Decree of 12/9/54) to include an extraneous matter which it concedes was not dealt with at the time the decree was entered (Op. p. 25). This is done to assure the co-conspirator licensees the "right" to avoid payment for their actual use of U. S. Gypsum's patents, notwithstanding the fact that the final decree adopted their proposals that they should have the continued use of such patents, *but upon payment of a reasonable royalty therefor* (U. S. G. Br., p. 15, fn. 12).

[fol. 1784] (b) *Rights of defendants inter se.* Not only does this modification go beyond the basic purpose of the decree, but it also violates the well established principle that the rendition of a judgment in an action does not conclude parties to the action, who are not adversaries under the pleadings, as to their rights *inter se,* upon matters which they did not litigate or have an opportunity to litigate between themselves; in other words, a judgment in favor of a plaintiff against two or more defendants is not conclusive of the rights and liabilities of the defendants *inter se,* except as to matters expressly put in issue between them, by cross-complaint or other adversary pleadings, and determined by the judgment in the first action.*

---

* *U. S.* v. *Columbia Gas & Electric Corp.,* 27 F. Supp. 116 (D. C. Del. 1939).

* Re-statement of the Law of Judgments, Sec. 82; 1 Freeman on Judgments, Sec. 422; 30 Am. Juris. 966-7; 101

There were no issues joined as between the defendant co-conspirators, nor did the court purport to make any adjudication of rights as between them, with this single exception: having declared the old license agreements illegal, null and void, the court assured the defendant licensees the right to continued use of U. S. Gypsum's patents for a limited time, *but upon payment of a reasonable royalty therefor.***

(c) *Petitioners as co-conspirators.* Moreover, there is no justification whatsoever for the extent to which the opinion has gone in modifying the prior decree to establish new "rights" in companies which have been adjudged guilty of conspiracy. It is not believed that a court of equity has ever shown more tender concern for the interest of certain co-conspirators at the expense of another. The court finds (F/F 6 and 7):

> "6. One result of the patent misuse was to create [fol. 1785] an economic situation where the conspirators—other than USG—had organized their manufacturing plants and conditioned their business operations upon the continued use of these patent rights which had been given them by the license agreements.
>
> "7. When the Supreme Court (333 U. S. 364) determined these license agreements to be violative of the Act, these licensees were placed in an uncertain and perilous position. They were operating based on the licenses which were declared violations of the Act. They elected to disregard the license agreements and to continue use of the patented devices and methods."

In its opinion, the court said, in referring to the *Local Loan* case, that there, as here, there is a basis for juris-

---

A. L. R. 104; 142 A. L. R. 727; 152 A. L. R. 1066; *George A. Fuller Co.* v. *Otis Elevator Co.*, 245 U. S. 489 (1918); *Fouke* v. *Jordy*, 289 F. 220 (C. A. 5th, 1923); *City of Owensboro* v. *Westinghouse*, 165 F. 385 (C. A. 6th, 1908).

** Decree of May 15, 1951, Art. VI; Decree of November 7, 1948, Art. VI and VIII; U. S. G.'s Br. Appen. pp. vii, xviii and xix.

diction "to secure or preserve the fruits and advantages of a judgment or decree rendered therein" (Op. p. 10).

Just what "fruits and advantages" a co-conspirator is entitled to in an antitrust decree is indeed difficult to comprehend. If co-conspirators National, Certain-teed, Ebsary and Newark conditioned their business operations upon the continued use of U. S. Gypsum's patents, that was part and parcel of their participation in the conspiracy. This court cannot equitably say that for their transgressions they should benefit by the free use of those patents when the decree itself required payment for their continued use. The petitioners National, Certain-teed, Newark and Ebsary were all conspirators. How does it lie in the mouth of any one of them to say that, by the mutual misconduct of all of them, they can refuse to pay for the use of the patents? How can a court of equity hold that it should amend the decree, upon petition of guilty parties, to enjoin a patentee against the simple act of maintaining a suit in another court to recover money for their use of the patents? The cases establishing the misuse doctrine can have no such application as between co-conspirators or law violators.

[fol. 1786] The court in this instance even goes so far as to hold that the co-conspirators' illegal activity created "rights" enabling them to grab the reins from the Government and obtain an amendment of the decree in order to protect and enforce their spurious private "rights."* The error is further accentuated in that this conclusion is reached without the taking of any evidence covering the period involved or for many years prior thereto.

---

* The opinion (pp. 7-9) relies heavily on *Missouri-Kansas Pipeline Co.* v. *United States,* 312 U. S. 502, to support the conclusion that the petitioners were given "rights" in the final decree which supported their peititioners for relief. That case is wholly dissimilar. There the petitioner was not a co-conspirator, but a victim of the conspiracy, and the decree had specifically given it the right to intervene.

IV

The Court Erred in Ruling That the Hartford-Empire Decision (323 U. S. 386 and 324 U. S. 570) and the Practical and Legal Situation in This Case Required the Denial of U. S. Gypsum's Right to Recover for Infringement of Its Patents Pendente Lite.

The court gives two reasons for ordering the modification of the final decree to include a denial of recovery upon infringement counts of the pending U. S. Gypsum suits: (1) the teaching in the *Hartford-Empire* case,** and (2) "the practical and legal situation here" (Op. pp. 27-32; F/F 6 and 7; C/L 16). Neither reason is sound.

(a) *Hartford-Empire.* The reliance on *Hartford-Empire* is based upon a misreading of certain language in the *Hartford-Empire* opinion on reconsideration (324 U. S. 570, 572), from which this court erroneously concludes that the Supreme Court there made some distinction between a *quantum meruit* recovery and an infringement recovery. Actually, that Court was dealing with two different claims and not with different remedies for the same claim.

[fol. 1787] The Hartford licensees (most of whom were not co-conspirators) had licenses covering not only the use of Hartford's patents, but also the lease of machinery and the furnishing of services. The trial court had appointed a receiver *pendente lite,* who had collected the royalties payable by the licensees for the use of the patents and the leased machinery, and for the services rendered under the contract.

On appeal, the Supreme Court had held that the royalties paid to the receiver by the Hartford licensees-lessees should be paid over to Hartford, unless the trial court found that since the entry of the receivership decree Hartford had violated the antitrust laws or the decree, but that "in any event" (whether or not it had violated the law or the decree) Hartford should receive out of the royalties, compensation on a *quantum meruit* basis "for services rendered to lessees" (323 U. S. 386, 411).

** *Hartford-Empire Co.* v. *United States,* 323 U. S. 386 (1945); decision on reconsideration, 324 U. S. 570 (1945).

On petition for rehearing, the Government pointed out that, but for the receivership, many licensees would not have paid further royalties and might be able to justify such refusal. The Supreme Court, on further consideration, recognized that each licensee might have elected to repudiate its lease and license, return the leased machinery, refuse to pay further rentals and royalties, and defend any suit arising out of such refusal to pay, either for infringement or otherwise, and that possibly the licensees did not do so because they relied on the return of royalties paid the receiver, as provided by the decree. Accordingly, it modified its original handling of this matter, segregating what should be done as to the leased machinery and services and what as to claims for use of the patents. Thus, the Court held that *under any circumstances* (*i.e.*, regardless of law or decree violation) the licensees must pay reasonable rentals and service charges on a *quantum* [fol. 1788] *meruit* basis for the machines used and services received during this period, leaving out at that point consideration of any amount otherwise payable for the privilege of using Hartford's patents (324 U. S. 570, 572).

The Court then considered the amount to be paid for using the patents, and ruled that unless Hartford had been guilty of some added violation of the antitrust laws since the District Court decree, the licensees must elect either (a) to remain licensees on such reasonable rental and royalty basis for the future as the District Court might fix, or (b) repudiate the licenses and litigate against Hartford their right to any portion of the rents and royalties beyond that which Hartford was to receive in any event (324 U. S. 570, 572). In other words, if any licensee chose to repudiate its license agreement, it could litigate with Hartford as to the amount that Hartford might retain of that part of the royalties collected by the receiver that was not for machines and services, but if any licensee chose to continue to use Hartford's patents and machinery, then Hartford could retain the fund and the licensees were compelled to pay, for future use, a reasonable rental and royalty as determined by the District Court.

In fact, there was an ultimate settlement made between Hartford and various licensees, whereby the receiver was to pay each licensee who executed a covenant not to sue

Hartford for any transaction occurring prior to the date of the final decree, a sum equal to 60% of the royalties which the particular licensee had paid the receiver, less certain minor expenses, and to pay the remaining 40%, less certain incidental amounts, to Hartford (see Par. 11, *Hartford-Empire* final decree of October 31, 1945, and *Buck Glass Co.* v. *Hofferbert*, 176 F. 2d 250 (C. A. 4th, 1949)). This resulted in Hartford's receiving a total of $7,267,049.82 from its licensees during this *pendente lite* [fol. 1789] period.* If Hartford was permitted to receive over $7,260,000 under its outstanding licenses which were invalidated by the decree, the *Hartford* case is certainly authority *against* enjoining U. S. Gypsum from seeking reasonable compensation for the actual use of its patents by its co-conspirators during a comparable *pendente lite* period.

This court's speculation (Op. pp. 31-32) that the Supreme Court language in *Hartford* shows that the court had in mind differences in the bases of recovery on *quantum meruit* and for infringement (*i.e.*, differences in measurement of damages for infringement and on *quantum meruit*) is completely without foundation and can furnish no basis whatsoever for the conclusion that the infringement counts should be enjoined. This is shown not only by the Government's petition for reconsideration in that case and the various briefs of the parties filed with the Supreme Court before its second opinion, which in no way discussed or considered differences in the bases of recovery, but also by the final decree that was entered in *Hartford-Empire*, which made no such distinction.

(b) *The "practical and legal situation."* The so-called "practical and legal situation here" is equally ineffectual in furnishing any proper basis for enjoining the infringement counts.

The "practical situation" relied upon is set out in nine numbered paragraphs of the opinion stating in rather inadequate fashion certain events in the course of the main litigation (Op. pp. 27-29), some of which are incorporated

---

* "Final Report and Account of Operations of Receiver of Hartford-Empire Company" (p. 5) filed Dec. 20, 1945 in Civil Action No. 4426, U. S. Dist. Ct. N. D. Ohio W. D.

in the court's findings of fact (F/F 1, 2, 3, 4, 6, 7, 8, 11-14, 16 and 18). Notwithstanding everything there stated or found, the court has concluded that the final decree in this case did not cover the matter of U. S. Gypsum's right to [fol. 1790] sue for infringement or for *quantum meruit* for the use of its patents during the 1948-1951 period (Op. p. 25; C/L 7). Despite this conclusion, the court uses these same facts as the basis for ruling that the decree should be modified to include a denial of recovery upon the infringement counts because of the "economic situation" in which the conspirators other than U. S. Gypsum found themselves following the Supreme Court's first opinion (Op. p. 30; F/F 7).* In the co-conspirators' election to repudiate the old license agreements and to continue using U. S. Gypsum's patents,** the court erroneously, as we have shown, saw "a close parallel—if not indeed a here controlling guide" (Op. p. 30).

Thus, neither of the grounds advanced by the court to support its modification of the final decree to enjoin the infringement counts is tenable. One of them, the *Hartford-Empire* decision, actually supports U. S. Gypsum's right to compensation for use of its patents *pendente lite*.

---

* For a further statement as to the error in this solicitude for co-conspirators, see *supra*, pp. 19-21.

** The opinion states that they elected to disregard the license agreements and to continue use of the "patented devices and methods." At another point, in describing the old license agreements (p. 28), it is said that they included "both process and machinery covered by the patents." This suggests an unawareness of the fact that basic product patents were included which were essential in the manufacture and sale of gypsum board. For example, Patent No. 2,017,022 (involved in all the pending suits) included seven product and five process claims. This, of course, is another of the many distinctions between this case and *Hartford-Empire*. There, none of the over 600 patents read on glass products.

V.

The Court Erred in Ruling That U. S. Gypsum Should Be Enjoined from Prosecuting the Quantum Meruit and Infringement Counts of Its Pending Suits and in Modifying the Final Decree Herein to Include Such an Injunction.

In conformity with the manifest errors of law and of fact hereinbefore discussed, the court erroneously con- [fol. 1791] cluded that U. S. Gypsum should be enjoined from prosecuting counts in its pending suits against the defendant petitioners wherein it is seeking reasonable compensation for the use of its patents on a *quantum meruit* recovery, or, in the alternative, damages for the infringement of its patents. To this end the court erroneously determined that the final decree of May 15, 1951 should be amended by enlarging it to include a paragraph ordering U. S. Gypsum to dismiss, with prejudice, its pending suits, and entered its decree of December 9, 1954 effectuating such an amendment (Motion for New Trial, Pars. 4, 5, 7 and 11). In this connection the court has also erroneously ruled that Count III of each of U. S. Gypsum's pending suits is an action based on an express contract and designed to recover indirectly the royalties provided for in the illegal license agreements (Motion for New Trial, Par. 6).

We have hereinbefore demonstrated the errors in the court's continued-misuse-as-a-matter-of-law ruling and its ruling, without the taking of any evidence, that U. S. Gypsum has not purged its patent misuse and that, as a matter of law, certain facts of record do not show purge (*supra*, Points I and II). It follows that in so far as the findings of fact, conclusions of law and decree entered herein on December 9, 1954, are based on those erroneous rulings, they are wrong and should be set aside. The automatic effect of such action would be to re-establish U. S. Gypsum's right to proceed on Count IV (seeking a *quantum meruit* recovery), for the opinion holds (pp. 32-33) that Count IV "is proper and prosecution thereof should not be enjoined unless U. S. G. is barred by unpurged misuse of its patents."

In fact, such a correction would also have the effect of

automatically re-establishing Count III of the respective suits on the theory of that count as stated to the court by U. S. Gypsum, *i. e.*, that it sought a *quantum meruit* recov- [fol. 1792] ery for the actual use of U. S. Gypsum's patents under circumstances from which the law would imply an agreement to pay (6/9/53 Hearing, Tr. 25; 1/13/54 Hearing, Tr. 147; U. S. G. Br. p. 85). Even on the construction placed on Count III by this court, *i. e.*, as a suit upon an express contract which should be enjoined as a left-handed way of recovering on the old license contracts (Op. p. 32; F/F 28; C/L 14), Count III should be reinstated, for in this finding and conclusion the court overlooks the fact that Count III expressly avers a rescission of the old license contracts and seeks recovery for use of the patents after such rescission, and therefore for a period not covered in any way by the old license agreements.

Similarly, we have shown that the court has misunderstood and misconstrued the ruling of the Supreme Court in the *Hartford-Empire* case in its conclusion that that decision was a specific precedent for holding that there could be no recovery for infringement of U. S. Gypsum's patents *pendente lite* (*supra,* Point IV). Since the determination that U. S. Gypsum should be enjoined from prosecuting the infringement counts in its pending suits is founded upon this erroneous conception, it is likewise unsupportable, and in so far as the findings, conclusions and decree entered herein on December 9, 1954, are based upon such an erroneous foundation, they should be set aside. No sound reason can be assigned as to why Hartford-Empire should be permitted to recover over $7,000,000 for the use of its patents and the services rendered in connection therewith *pendente lite,* whereas U. S. Gypsum should be prevented from attempting to recover for a similar use of its patents during the period between the first Supreme Court opinion in *Gypsum* and the entry of the final decree of May 15, 1951.

Not only is the amendment of the final decree of May 15, 1951, by this Court's decree of December 9, 1954, wholly [fol. 1793] untenable because of the unwarranted views of this court with respect to the *quantum meruit* and infringement counts, but it is also clearly erroneous in that the court, in so acting, has expanded the final decree beyond its

basic purposes and has created new rights in the co-conspirator licensees which not only were not contemplated by the final decree, but actually are in conflict with that decree's provisions governing the rights of the parties as to the future use of U. S. Gypsum's patents.

Implicit in the compulsory licensing provisions of the 1951 final decree was the assumption that U. S. Gypsum was free to sue for the use of its patents, for such compulsory licenses were merely immunity from such suits. National and Certain-teed, in reliance on the decree, obtained licenses to use U. S. Gypsum's patents subsequent to May 15, 1951, and paid royalty therefor. Newark and Ebsary refused to apply for a license under the decree but continued to use U. S. Gypsum's patents. By extending the decree of December 9, 1954, to enjoin the prosecution of the Newark and Ebsary suits for use of the patents subsequent to May 15, 1951 (contrary to the views expressed in its opinion, p. 22), the court has in effect ruled that Newark and Ebsary could use U. S. Gypsum's patents with immunity, thus making the compulsory licensing provisions of the final decree meaningless. Such an inconsistency between the final decree and this court's decree of December 9, 1954, is wholly indefensible and is in derogation of the rights given to U. S. Gypsum by the final decree with respect to continued use of its patents. This is manifest error, which in this instance is accentuated by its having been done in disregard of the Government's position, as hereinbefore more fully discussed (*supra,* Point III).

[fol. 1794]

VI

The Court Erred in Ruling That It Has Jurisdiction and Should Exercise It to Grant the Relief Sought By the Defendant Petitioners.

Another basic error in the opinion of July 6, 1954 (pp. 7, 11, 25) and in the conclusions of law (1-6 incl.) is the determination that this court has and should exercise jurisdiction to restrain prosecution of the pending suits in the various district courts and to adjudicate a private controversy between the defendants as to the right of U. S. Gypsum to recover under *quantum meruit* or infringement,

regarding which the Government has clearly stated that it "takes no position."

Civil Action 8017 is an injunction suit filed by the United States on behalf of the general public, by the Attorney General who is primarily charged by Congress with the duty of protecting the public interest under the Anti-Trust laws (*United States* v. *Borden Company,* 347 U. S. 514, 518 (1954)). He is the sole spokesman for the public interest. (*Buckeye Co.* v. *Hocking Valley Co.,* 269 U. S. 42 (1925)). This principle cannot be explained away simply on the ground that the petitioner seeking to vindicate private "rights" is a party defendant to the public case (cf. Op. p. 6). Entirely different policy considerations govern such a Government suit from a private suit. (*United States* v. *Borden Co., supra; United States* v. *Bendix Home Appliances,* 10 F. R. D. 73, 77 (S. D. N. Y. 1949)).

The prime object of civil decrees obtained by the Government, such as the final decree of May 15, 1951, is, as we have shown (Point III(a), *supra*), the continuing protection of the public against a recurrence of anti-trust violations. This public interest in public suits clearly differentiates the private interests in private decrees. Pri-[fol. 1795] vate litigants, whether or not parties to the Government decree, can no more use it to their own selfish ends, than can a private decree preclude injunctive relief to the Government in a public action. (*United States* v. *Borden Company, supra,* pp. 518-19.) It is for this reason that federal courts have been ever alert to prevent decrees in public suits from being encumbered with extraneous issues of a purely private nature. (*Buckeye Co.* v. *Hocking Valley Co. supra; United States* v. *Bendix Home Appliances, supra; United States* v. *Columbia Gas and Electric Corp. supra.*)

Here, in this public action, the final decree admittedly did not either expressly or implicitly cover the character of suits brought by U. S. Gypsum for infringement or for *indebitatus assumpsit* or for *quantum meruit.* It neither allowed nor forbade such (Op. p. 25; C/L 7). Admittedly, also, there were no issues joined as between the defendant co-conspirators on which any adjudication could have been

made. Here, too, the sole public defender has expressly stated that

> "it takes no position as to whether U. S. G.'s alternative claims for recovery on a *quantum meruit* basis or for infringement * * * are barred by this Court's final decree of May 15, 1951, or as to whether this Court should enter an order enjoining U. S. G. from prosecuting such alternative claims." (Govt. Br. p. 3.)

Despite these facts, a majority of this court has amended the decree to preclude prosecution of U. S. Gypsum's suits, on the ground that defendant petitioners, by "fair implication" of the final decree, having obtained rights to free use of U. S. Gypsum's patents. Not only is there basic error in this adjudication in ignoring the Government's position, expanding the decree beyond its basic purpose, and creating new rights in the co-conspirator licensees, as we have shown, but it is manifest error to strain estab- [fol. 1796] lished principles to find jurisdiction to make such an adjudication. Especially is this so where such "rights" cannot be found in the final decree, but only in such post-decree matters as a misconstruction of the legal effect of Count III of the recently filed U. S. Gypsum suits, a supposed continuing unpurged patents misuse of U. S. Gypsum, and a mistaken reading of the *Hartford-Empire* case (C/L 14-16). *Terminal Railroad Assn.* v. *United States*, 266 U. S. 17 (cited Op. p. 7) not only does not support such a conclusion but, on the contrary, requires an opposite conclusion, as it expressly recognized and held that

> "a decree will not be expanded by implication or intendment beyond the meaning of its terms when read in the light of the issues and the purpose for which the suit was brought; * * *" (266 U. S. 17, 29).

In the *Columbia Gas & Electric Co.* case (cited Op. pp. 7-9), the rights of the non-party referred to were not conjectural or fashioned from post-decree occurrences, but were expressly conferred by the consent decree, with the consent and insistence of the sole public defender.

This assumption of jurisdiction is clearly neither under

Article X of the final decree "to construe carry out, or enforce" it, nor within the inherent power of this court to enforce its decree. The Government's position has removed all public interest from the matter of Counts III through VI of the pending suits. Judge Cole is correct in stating that the main litigation brought by the Government in the public interest "will not permit the main action to be encumbered with extraneous issues of a private nature" (Dissenting Opinion p. 2). Such an effort to expand the basic purpose of the final decree to dispose of new private issues between the defendants at this late date is clearly beyond the jurisdiction of this court.

[fol. 1797] VII

The Court Erred in Entering Findings of Fact Which Are Contrary to the Evidence and to Law and Conclusions of Law Which Are Contrary to Law.

In support of its motion for new trial, U. S. Gypsum assigned errors in the entering of Findings of Fact 5, 6, 7, 10, 20, 21, 22, 22A through 22E, 25, 28, 31, 32 and 33. Most of these erroneous findings have been discussed in the points hereinbefore considered.* The remaining findings to which error is assigned involve in varying degrees findings which are inaccurate, misleading or contrary to the evidence. Thus finding 5 erroneously characterizes the *prima facie* determinations of the Supreme Court and inaccurately states the terms of the old license agreements; finding 10 misstates the facts as to the proceedings on the motion for summary judgment; findings 20 and 21 are inaccurate and misleading in their purported summation of the final decree; finding 25 is not supported by the evidence and is contrary to the fact; finding 31 inaccurately describes the recovery sought in Counts I and II of the pending suits; and findings 32 and 33 are unsupported by the evidence and contrary to the fact, particularly with respect to Patent No. 2,044,401. (For further detail as to the errors, reference is made to

---

* Point II, F/F 22, 22A through 22E; Point F/F 6 and 7; Point IV, F/F 6 and 7; Point V, F/F 22, 28.

U. S. Gypsum's Objections and Suggestions filed herein September 17, 1954, pp. 30-33, 35-37, 47-49, 64, 68-71).

In support of its motion for new trial U. S. Gypsum also assigned errors in the entering of Conclusions of Law 1 through 6, 9, and 11 through 16, which have been fully discussed in the points hereinbefore considered.*

[fol. 1798] It is respectfully submitted that the findings and conclusions objected to are indefensible and that they should be set aside by the court pursuant to U. S. Gypsum's motion for new trial.

VIII

U. S. Gypsum's Motion for New Trial Is the Appropriate Remedy to Obtain a Reconsideration of the Findings, Conclusions and Decree Entered Herein on December 9, 1954, and a Correction of the Errors Inherent in Them.

Rule 59(a) of the Federal Rules of Civil Procedure provides:

> "A new trial may be granted to all or any of the parties and on all or part of the issues * * * (2) in an action tried without a jury, for any of the reasons for which rehearings have heretofore been granted in suits in equity in the courts of the United States. On a motion for a new trial in an action tried without a jury, the court may open the judgment, if one has been entered, take additional testimony, amend findings of fact and conclusions of law or make new findings and conclusions, and direct the entry of a new judgment."

Rule 59 represents an amalgamation of the old motion for new trial at law and the petition for rehearing under equity practice. Alleged manifest errors of law and of fact have long been common grounds in equity for seeking a rehearing or reconsideration by the court (Moore's Fed-

---

* Point I, C/L 11 though 15; Point II, C/L 11, 12, 13 and 15; Point III, C/L 1 through 6, and 9; Point IV, C/L 16; Point V, C/L 11 through 16; Point VI, C/L 1 through 7, 14 through 16.

eral Practice, Pars. 59.02; 59.07, including cases cited in footnotes 5, 10, 11, 12).

A motion seeking reconsideration of a court's action is appropriate under Rule 59(a) although there has not been any trial at which evidence has been introduced (Moore's Federal Practice, Par. 59.03 (fn. 8, 9) and Par. 59.07 (fn. [fol. 1799] 4); *Safeway Stores* v. *Coe,* 136 F. 2d 771 (App. D. C. 1943); *Jusino* v. *Morales & Tio,* 139 F. 2d 946, 948 (C. A. 1st, 1944); *Principale* v. *Associated Gas & Electric Co.,* 192 F. 2d 1016 (C. A. 2d 1951), Cert. Den. 343 U. S. 942).

The decree herein was entered December 9, 1954. The motion for new trial was filed December 20, 1954, within the time allowed by the rules (Fed. Rules of Civil Procedure, Rules 6(a) and 59(b)). It is the appropriate remedy, duly and timely filed, to seek a reconsideration of the findings, conclusions and decree entered herein on December 9, 1954.

Conclusion

In view of the manifest errors of law and of fact hereinbefore set forth and considered, it is urged that U. S. Gypsum's motion for new trial be granted and the findings of fact, conclusions of law and decree entered herein on December 9, 1954, be set aside and that the matter be set down for such further hearing as the court may deem necessary or appropriate for the taking of evidence, the making of new findings and conclusions and the entering of a new judgment.

Respectfully submitted,

Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., Attorneys for Defendant United States Gypsum Company. Cravath, Swaine & Moore, 15 Broad Street, New York 5, New York, MacLeish, Spray, Price & Underwood, 134 South La Salle Street, Chicago 3, Illinois, Macleay & Lynch, 1625 K Street N. W., Washington 6, D. C.

[fol. 1800] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title Omitted]

STATEMENT OF NATIONAL GYPSUM COMPANY AND CERTAIN-TEED PRODUCTS CORPORATION IN OPPOSITION TO UNITED STATES GYPSUM COMPANY'S MOTION FOR NEW TRIAL—Filed February 28, 1955

This statement is submitted on behalf of defendant petitioners National Gypsum Company and Certain-teed Products Corporation in opposition to the motion for a new trial, filed December 20, 1954, by United States Gypsum Company (hereinafter referred to as "USG"), made pursuant to Rule 59(a) of the Federal Rules of Civil Procedure.

As USG states in its Points and Authorities* in support of its motion, its present motion is more specifically [fol. 1801] a motion for reconsideration or rehearing, which motion is appropriate under Rule 59(a). (P & A p. 33.)

This Court has stated with respect to such motions in *Seymour* v. *Potts & Callahan Contracting Co.*, 2 F. R. D. 38 (D. C. D. C. 1941), rev'd on other grounds *sub nom. Seymour* v. *Hawkins*, 133 F. 2d 15 (C. A. D. C. 1942):

> ". . . Although motions for rehearing ought not be discountenanced, there has been a growing tendency here to treat them as an ordinary step in the course of a case; and this tendency, I think, should be discouraged. Too often we see motions to rehear of a purely repetitious nature. Again we find them predicated upon factual or legal grounds that could and should have been presented at the original hearing.

---

* USG's Points and Authorities in support of its motion, filed January 7, 1955, will be referred to as "P & A p." followed by a page number.

> In both instances they necessarily result in delay and wasted effort by court and counsel." (2 F. R. D. p. 40)*

USG's motion for a new trial asserts that this Court erred in 13 of its 37 findings of fact and 13 of its 16 conclusions of law. USG's motion contests every major ruling of this Court, and USG's Points and Authorities in sup- [fol. 1802] port of its motion repeats substantially every argument it has already made on the issues raised by defendants' petitions.

The Court's observations in the *Seymour* case, *supra*, are, therefore, particularly pertinent. We believe it would cast an undue burden upon the Court if we again answered each of the arguments made by USG in its brief and oral argument and repeated by USG in its Points and Authorities.

This statement, therefore, will be limited, with one exception, to answering only that part of USG's Points and Authorities which presents contentions not heretofore made in one form or another to this Court. The only such contentions, we find, are those which attack this

---

* Compare the statement of Judge Lindley on a petition for rehearing with respect to the decree entered in *Stewart-Warner Corp.* v. *Levally*, 16 F. Supp. 778 (N. D. Ill. 1936), decree aff'd *sub nom. Lincoln Engineering Co.* v. *Stewart-Warner Corp.*, 91 F. 2d 757 (C. A. 7, 1937), decree rev'd on other grounsd 303 U. S. 545 (1938);

> "Defendant's first premise is the alleged discovery of additional material evidence; its second, alleged error by the court in its findings, conclusions and decree. Defendant's action in the latter respect is equivalent merely to an attempt ot reargue issues previously determined, after a voluminous record had been made and full and complete briefs and arguments submitted. Such practice is not to be encouraged, for, if a court has once rendered its best efforts to arrive at proper solution of questions submitted, upon complete presentation, it should not be subjected to a demand to consider the same again. Otherwise, litigation would never end; . . ." (p. 779).

Court's ruling that, as a matter of law, USG has continued to misuse its patents up to this time. (P & A Point I pp. 2-4.)

The exception to this limitation involves the application to this proceeding of the *Hartford-Empire* opinions (323 U. S. 386, 324 U. S. 570). Briefs and argument dealt with so many aspects of this case, that they may have confused as much as enlightened the meaning of *Hartford-Empire*. We are mindful that additional discussion of *Hartford-Empire* may be burdensome to the Court, but we believe it may be helpful to this Court to clarify further the application of that case to this proceeding, if this Court should so desire.

Our statement, therefore, will relate only to the rulings of this Court that (1) USG's patent misuse continued to date, and (2) the *Hartford-Empire* case bars USG's infringement claims.*

[fol. 1803] At the outset the relationship of both of these rulings to the Court's decision should be clear. The Court has enjoined USG from enforcing *all* of its claims against these petitioners upon several separate grounds. The Court enjoined USG from enforcing any of its claims for the period prior to May 15, 1951, because it was clearly shown by the record herein that USG did not purge itself of its patent misuse prior to that time. (CL 11, 12)* The Court also found, however, as an additional ground for barring

---

* The other major contentions of USG, which cover ground already much fought over, and to which we make no answer in this statement for that reason are: that the Court cannot find, as a matter of law, that USG did not purge itself prior to May 15, 1951 (P & A II); that the relief sought by defendant petitioners goes beyond the basic purpose of the Final Decree of May 15, 1951 (P & A III); that the Court has no jurisdiction (P & A VI). For the same reason—that they contain arguments already asserted and considered by this Court—no answer is made to the material on pp. 5-9 of Point I, and to Points IV, V and VII of USG's Points and Authorities, except insofar as USG attacks this Court's reliance on *Hartford-Empire*.

* Conclusions of Law will be referred to herein as "CL".

all USG's claims for the period prior to May 15, 1951, that USG's suits on its illegal license agreements constituted continuing misuse to date; in challenging this Court's ruling, therefore, USG assails only an alternative ground relied upon by the Court to dismiss *all* USG's claims. (CL 13)

The *Hartford-Empire* case is relied upon by the Court only as an *additional* ground for dismissal of USG's *infringement* claims for the period up to May 15, 1951.

These petitioners believe that both of these rulings are sound as we shall hereinafter show.

[fol. 1804] I

The Court Correctly Ruled That USG Continued to Misuse Its Patents Until Entry of the Court's Decree of December 9, 1954.

USG contends that:

> "... this court has taken the erroneous position that because U. S. Gypsum has brought suits in 1953 to recover money for the actual use of its patents, for which compensation has not heretofore been paid, such a money action in some way constitutes a continued misuse of its patents. This determination apparently rests upon the facts, *first*, that these suits included two counts (*i. e.* Counts I and II) seeking to recover royalty under the illegal license agreements, and *secondly*, that the other alternate and inconsistent counts in these suits sought compensation in a like amount as that claimed under Counts I and II. ..." (P & A p. 3)

The foregoing statement of the Court's position is misleading. The Court did not hold that merely bringing an action to recover money for the use of patents constituted misuse. The Court has clearly stated the basis for its holding of continued misuse in Conclusion 13:

> "The course of conduct of USG, as clearly shown by the proceedings of record in the Anti-trust case and in the suits by USG, must be construed as meaning that USG has continued after May 15, 1951 to misuse its patents by seeking recovery, directly and indirectly, on the illegal license agreements up to this time. The at-

tempt by USG to enforce the royalty provisions of the illegal patent license agreements is clear misuse of its patents; such misuse yet continues; and to allow prosecution of these suits, would weaken the effectiveness of the Final Decree."

USG states that it knows of no case "wherein it has been held that the mere bringing of a suit to recover money [fol. 1805] alleged to be due under an unlawful license agreement, and in the alternative compensation for use of patents, constitutes without more misuse of a patent as a matter of law". (P & A p. 3.) Certainly it would be difficult to find such a case, for the doggedness of USG in seeking to enforce its license agreements even after they had been adjudicated "illegal, null and void" in a Final Decree is unique.

Park-In Theatres v. *Paramount-Richards Theatres,* 90 F. Supp. 730 (D. C. Del. 1950), aff'd 185 F. 2d 407 (C. A. 3, 1950), cert. denied 341 U. S. 950, is cited by USG as authority contrary to the Court's ruling on continued misuse (P & A p. 4). That case is not in point. Plaintiff in *Park-In Theatres* initially alleged two causes of action—one for an accounting for royalties under a patent license agreement and a second or alternative cause of action for patent infringement. Certain defendants moved to dismiss on the ground that the license agreement contained provisions in violation of public policy and was therefore unenforcible, and that as a further consequence the patent infringement action could not be maintained. Disposition of the motion to dismiss was deferred by the court for further facts. 81 F. Supp. 466. A motion for summary judgment, based on the same contentions, was then filed. Plaintiff then filed an amended complaint and defendants renewed their motions for summary judgment and to dismiss with reference to the amended complaint. Based on the facts and affidavits before it, the district court held that the plaintiff's license agreement tended to restrain competition and was therefore violative of public policy. Accordingly, it granted the defendants' motion for summary judgment as to the first cause of action.

As to the cause of action for patent infringement (which appeared as the fourth cause of action in the amended

complaint), the court held that the record before it created an issue of fact as to whether plaintiff had purged its misuse of its patent, and the court denied summary judgment on this cause of action.

[fol. 1806] In the *Park-In Theatres* case there was no prior adjudication that the license agreement in question was "illegal, null and void". In fact, in a prior action brought by Park-In Theatres against Loew's Drive-In Theatres, the very contract terms in question in the *Park-In Theatres* case were held lawful and not violative of the anti-trust laws. 70 F. Supp. 880, 887 (D. C. R. I. 1947).* Hence, in the *Park-In Theatres* case, the action was brought on a license agreement the terms of which had previously been adjudicated legal. Therefore, the mere bringing of a suit by Park-In Theatres could not be misuse as a matter of law. If, however, Park-In Theatres had subsequent to this decision sought in some manner to enforce its license agreements declared unenforcible in this decision, it would be in a position somewhat analogous to USG and upon those facts might very well be considered to have continued its misuse by institution of suit on the illegal patent license agreement.**

USG next contends that the Court's continued misuse ruling is in conflict with the recent patent law codification. USG's entire argument on this point is quoted:

> ". . . The continued misuse ruling conflicts with the proposition that a suit to enforce a patent right is not *per se* against public policy, which is now conclusively established by the new codification of the patent laws providing (Title 35 U. S. Code, Sec. 271(d)):
>
> 'No patent owner otherwise entitled to relief for infringement * * * shall be denied relief or deemed

---

* This decision was reversed on other grounds subsequent to the institution of the Paramount-Richards action. 174 F. 2d 547 (C. A. 1, 1949), cert. denied 338 U. S. 822.

** However, even in a third action, the fact that Park-In Theatres had received conflicting decisions in two separate circuits would militate against a finding of misuse by mere bringing of a new action.

guilty of misuse or illegal extension of the patent right by reason of his having done one or more [fol. 1807] of the following: * * * (3) sought to enforce his patent rights against infringement or contributory infringement.'

A patentee's right to grant a license (immunity from suit for infringement) and receive compensation therefor is clearly an enforcible right within the meaning of the new codification. Since it is the declared public policy that the mere bringing of a patent infringement suit is not misuse, then *a fortiori* a suit on a license agreement (such as Counts I and II) solely for the recovery of money does not in itself constitute misuse." (P & A p. 4)

From the face of the statute it appears that it merely lays down the principle that a patentee, *otherwise entitled to relief,* is not guilty of misuse by merely enforcing his patent right against *infringement or contributory infringement.* USG did not, in the instant proceeding, merely seek to enforce patents against infringement or contributory infringement. Its infringement claim constituted only one of five or six counts. The Court's continued misuse ruling rests primarily upon the fact that USG added to its infringement claim claims under the illegal license agreements (CL 13).

It also appears plainly from the face of the statute that USG is in error in claiming that a suit on a license agreement is an enforcement of a patent right within the scope of the statute. The statute is limited solely to enforcing "rights against infringement". A suit on a license agreement is on a contract; a suit for infringement is for a tort. The distinction is basic in the whole patent field.

Moreover, when we examine the legislative history of Section 271(d), it is apparent that USG's construction of the statute has stretched and twisted its meaning. Section 271 of the Patent Act of 1952 developed as a result of the *Mercoid* cases [*Mercoid Corp.* v. *Mid-Continent Investment Co.,* 320 U. S. 661 (1944) and *Mercoid Corp.* v. *Minneapolis Honeywell Regulator Co.,* 320 U. S. 680 (1944)] In the

[fol. 1808] *Mercoid* cases the Supreme Court held that a patentee who was using his patent as an effective means of restraining competition in an unpatented article was guilty of misuse, and could not succeed in a contributory infringement action against one deliberately selling the unpatented article to an infringer, even though the unpatented device was itself an integral part of the patented system. Language in the Supreme Court's opinions that a patentee cannot use the patent to acquire a monopoly which is not plainly within the terms of the patent grant, raised the question whether a patentee, otherwise free of any misuse of his patent, could be said to be attempting to extend his patent grant and thereby misusing it by merely bringing a suit for contributory infringement. The *Mercoid* cases were interpreted by some members of the patent bar to forbid any contributory infringement suits [see, e.g., Giles S. Rich "Infringement Under Section 271 of the Patent Act of 1952", 35 J. P. O. S. 476-500 (July 1953), 21 Geo. Wash. L. Rev. 521-46 (April 1953)], and at least one decision directly so held. *Stroco Products* v. *Mullenbach*, 67 U. S. P. Q. 168 (S. D. Cal. 1944). See also *Master Metal Strip Service* v. *Protex Weatherstrip Mfg. Co.*, 169 F. 2d 700 (C. A. 7, 1948), cert. denied 335 U. S. 898.

In the *Stroco Products* case a contributory infringement action was dismissed on motion for summary judgment on the authority of the *Mercoid* cases, despite the fact that there was no evidence before the court that the plaintiff had by license or otherwise attempted to secure a monopoly on the unpatented portions of the complete combination covered by its patent. The district court held that the mere bringing of suit was misuse of plaintiff's patent.*

Because of the doubt and confusion as to the state of the law caused by the *Mercoid* cases and conflicting de-
[fol. 1809] cisions resulting therefrom, the New York Patent Law Association sponsored various bills which resulted in

---

* It should be noted that this case is a direct holding that the mere bringing of suit can be misuse. Legislation, i.e., Section 271 (d) overruled this case, but only in its limited field. Cf. *Kobe* v. *Dempsey Pump Co.*, 198 F. 2d 416, 424-25 (C. A. 10, 1952), cert. denied 344 U. S. 837.

the enactment of Section 271. See Hearings Before Committee on the Judiciary on H. R. 5988, 80th Cong. 2d Sess. (1948); Hearings Before Committee on the Judiciary on H. R. 3866, 81st Cong. 1st Sess. (1949); Hearings Before Committee on Judiciary on H. R. 3760, 82nd Cong. 1st Sess. (1951).

The resulting statute, Section 271, was designed to, and did re-assert conclusively the right to sue for contributory infringement. Subsection (d) is ancillary to subsections (b) and (c) which define and limit contributory infringement of a patent. Reviser's Note to Section 271. Subsection (d)'s purpose, in the words of the Judiciary Committee Report, is to provide "that one who merely does what he is authorized to do by statute is not guilty of misuse of the patent". Sen. Rep. No. 1979, 82nd Cong. 2d Sess. p. 8 (1952); H. R. Rep. No. 1923, 82nd Cong. 2d Sess. p. 9 (1952).*

It can be seen from the above history of Section 271, both case and legislative, that it is designed to clarify the law only in the limited area of contributory infringement, and authorizes action for contributory infringement where the patentee is not otherwise misusing his patent.

[fol. 1810] We submit that, for the foregoing reasons, USG cannot claim that its suits on license agreements which have been adjudicated illegal are proper because of any argument based on Section 271(d).

---

* As Mr. Rich, who spoke for the Patent Law Association in sponsoring the bills before the Judiciary Committee, has elsewhere stated:

> "Clause (3) says 'sought to *enforce* his patent rights against infringement or contributory infringement', having reference to suits under paragraph (a), (b) or (c), and is directed to the situation in cases which have arisen in which the courts have said that the mere bringing of a suit against a contributory infringer is an attempt to extend the monopoly and hence a misuse of the patent because the objective is to monopolize the sale of 'unpatented' wares," (35 J. P. O. S. at p. 494.)

For a discussion of the development of Section 271 see 66 Harvard Law Rev. 909-18 (1953).

II

This Court Correctly Concluded That the Teaching of Hartford-Empire Barred USG's Infringement Claims

This Court's Conclusion of Law with respect to *Hartford-Empire* reads:

> "Both because of the practical and legal situation in this case, and, also, the teaching in the *Hartford-Empire* case, the Final Decree should be modified to cover prohibition from prosecuting the USG suits insofar as they are based on patent infringement during the period covered by those suits." (CL 16) See also the Court's opinion of July 6, 1954, pp. 30-33.

This Court's Conclusion of Law and its opinion with respect to *Hartford-Empire* can be read fairly only in the context of the various contentions of the parties concerning that case.

In our initial briefs, National Gypsum Company and Certain-teed Products Corporation asserted that *Hartford-Empire* should bar all USG claims asserted against them for the period prior to May 15, 1951 because:

(1) The factual and legal situations were analogous—i.e., there were broad, industry-wise restraints and monopolization accomplished through patent misuse.

(2) The Supreme Court—faced for the first time with the problem of the appropriate remedies for such violations—prescribed, in 323 U. S., the first *Hartford* opinion, with regard to the misused patents, compulsory li- [fol. 1811] censing at reasonable royalties for the post-decree period, and an injunction against infringement claims for the pre-decree period. In the *National Lead* case, also factually and legally analogous to *Hartford-Empire* and *Gypsum*, the same remedies were adopted. (See National Brief, pp. 45-46.)

USG in its answering brief sought to meet this argument on the first ground only—i.e., that *Gypsum* was unlike *Hartford-Empire* because in *Gypsum* the restraint was a narrow one (USG Brief pp. 101-13). But USG has never denied that in *Hartford-Empire* (323 U. S.) the broad remedy of forbidding pre-decree infringement claims was

granted along with the post-decree remedy of compulsory licensing. This is the basic teaching of the *Hartford-Empire* case. USG, however, intermixed this simple and controlling aspect of the *Hartford-Empire* case with the special problem in that case relating to the disposition of ear-marked royalties, i.e., those paid by Hartford-Empire's licensees for the period between the lower court's initial and final decrees.

It should be clear at the outset that the ear-marked royalty problem was a special one peculiar to that case. The lower court in *Hartford-Empire* had appointed a receiver at the time of entry of its decree, in order, *inter alia,* "to prevent any further abuse of the patent privileges of Hartford" (46 F. Supp. 541, 620). The licensees had paid royalties to Hartford's receiver during the period between the initial and final decrees. Hartford's licensees, therefore, were not infringers during this period. The Supreme Court's disposition of this unique problem in its *second opinion* (324 U. S.), therefore, does not in any way limit its broad holding in its first opinion, followed in *National Lead,* that all defendants (including Hartford) are to be enjoined from bringing infringement claims under misused patents for the period prior to entry of the final decree (our period) and to license them at reasonable royalty rates thereafter.

[fol. 1812] This broad holding, derived from the Supreme Court's first *Hartford* opinion, was undoubtedly in this Court's mind in finding that the teaching of the *Hartford* case was that infringement claims for the period prior to May 15, 1951, were to be barred. *Hartford,* therefore, fully supports this Court's action in enjoining USG from enforcing its infringement counts.

USG asserts (P & A pp. 22-25) that this Court erroneously concluded from the language of the Supreme Court in the *second Hartford-Empire* opinion (324 U. S. 570, 572), which this Court quotes at p. 31 of its Opinion, that the Supreme Court distinguished between a *quantum meruit* and an infringement claim under patents. USG further asserts that the Supreme Court, in the language quoted by this Court, actually was distinguishing between a claim by Hartford against its licensees for *quantum*

meruit for the use of its *machines* and *services,* and a claim for compensation for the use of its patents.

Assuming that USG's construction of the Supreme Court's language in the second *Hartford* case is correct, it is a *non sequitur* to contend, as does USG, that *Hartford* furnishes no basis for the conclusion that the infringement counts should be enjoined. This Court's view that the teaching of *Hartford* bars USG's infringement claims is sound for the reasons stated above.

In our opinion, the Supreme Court in the second *Hartford* opinion did not intend to draw a distinction between infringement and *quantum meruit* claims under patents; that the *quantum meruit* claim allowed was only as to rental and service charges for use of Hartford's machines, and not its patents; and that the second *Hartford* opinion cannot be construed to bar only USG's infringement claims, and to permit USG to go forward on its *quantum meruit* claim.

We think that our construction of the second *Hartford* opinion is supported by the well established principle that [fol. 1813] a *quantum meruit* claim will not lie for the use of a patent. This view was expressed briefly by National in its Brief, footnote p. 34; and in the event this Court desires to read a fuller expression of our view, it is fully developed in Appendix A attached hereto.

In summary, therefore, this Court correctly held that *Hartford-Empire* supported its order to USG to dismiss its infringement claims against these petitioners.

Conclusion

For the foregoing reasons, USG's motion for a new trial should be denied.

Respectfully submitted, Finck & Huber, Rosenman Goldmark Colin & Kaye, Seymour Krieger, Clausen, Hirsh & Miller, Purcell and Nelson, Attorneys for National Gypsum Company and Certain-teed Products Corporation, Defendant-Petitioners.

February 28, 1955.

A *Quantum Meruit* Claim Will Not Lie for Use of a Patent

An action for *quantum meruit* is a quasi-contractual action based on an obligation imposed by law on a defendant irrespective of, and sometimes in violation of, his intention.* A restriction upon the power of the law to create such obligations is that they must be of a kind which would have been appropriately enforced under common law procedure by a contractual action. 1 Williston on Contracts § 3.

As pointed out in the National Brief, at p. 34, and in the Certain-teed Brief at pp. 33 et seq., no recovery in *quantum meruit* can be had by USG on its license agreements since they are contracts which are illegal, and have been so adjudicated.

The only other possible basis for a *quantum meruit* action is if such an action will lie for patent infringement. Such an action clearly is not permissible.

The remedies available for patent infringement are wholly statutory and have no common law basis. *Gayler* v. *Wilder,* 51 U. S. 476, 493 (1850); *Bellavance* v. *Plastic-Craft Novelty Co.,* 30 F. Supp. 37 (D. C. Mass. 1939). The patent owner has the election to sue at law for damages for infringement, or seek an injunction, accounting and damages in equity. 35 U. S. C. §§281, 283, 284; *Ryan Distributing Corp.* v. *Caley,* 51 F. Supp. 377 (E. D. Pa. 1943), aff'd 147 F. 2d 138 (C. A. 3, 1945), cert. denied 325 U. S. 859.

Infringement of a patent is a tort. *Carbice Corp.* v. *American Patents Corp.,* 283 U. S. 27, 33 (1931); *Stern* v. [fol. 1815] *Goddard,* 22 Fed. Cas. No. 13,353 (C. C. Cal. 1856); 69 C. J. S. p. 890. Accordingly, the law will not resort to the fiction of a contract on the part of the infringer to sustain a quasi-contractual action. *In re Paramount*

---

* This must be distinguished from a contract "implied-in-fact" which is an obligation arising from mutual agreement and intent to promise but where the agreement and promise have not been formalized. 1 Williston on Contracts § 3. There are no contracts implied-in-fact in this case. National Brief, pp. 35-37.

Publix Corp., 8 F. Supp. 644 (S. D. N. Y. 1934); see 1 Williston on Contracts, § 3.

It has been held in several cases that there is no quasi-contractual action for patent infringement. *In re Paramount Publix Corp., supra; In re Boston & Fairhaven Iron Works*, 23 Fed. 880 (C. C. D. Mass. 1885); *Schillinger* v. *United States*, 155 U. S. 163 (1894); *United States* v. *Palmer*, 128 U. S. 262 (1888); cf. *DeWitt* v. *Elmira Nobles Mfg. Co.*, 66 N. Y. 459 (1876); *Cohan* v. *Robbins Music Corp.*, 244 App. Div. 697 (1st Dept. 1935).* We have been unable to find any cases holding otherwise.**

The foregoing shows that in the posture of this case, USG cannot make any *quantum meruit* claim for use of its patents. It furnishes an additional ground, apart from the antitrust considerations set forth in Part IV of this Court's opinion, for barring USG's *quantum meruit* claims.

---

* The distinction should be noted in these cases between the denial of *quantum meruit* in a quasi-contractual action for patent infringement and the possible separate cause of action for *quantum meruit* under an express or implied-in-fact contract. The Supreme Court opinion in *E. W. Bliss Co.* v. *United States*, 253 U. S. 187 (1920) illustrates this distinction.

** The case of *Schiff* v. *Hamond Clock Co.*, 69 F. 2d 742 (C. A. 7, 1934), decided on the ground that plaintiff was estopped to deny the efficacy of a release given to a bankrupt party in the prior action, has dictum to the effect that plaintiff could have had a provable quasi-contractual claim for patent infringement against such bankrupt party in the bankruptcy proceedings "on the theory that an infringer may be held as a trustee *ex maleficio* for profits by him obtained through his wrongful use of another's patent" (p. 746). This dictum is clearly wrong since the trustee *ex maleficio* theory had been expressly ruled out by the Supreme Court as early as 1881 in the case of *Root* v. *Railway Co.*, 105 U. S. 189. The *Schiff* case was settled pending appeal and accordingly the decree was vacated as moot. 293 U. S. 529.

[fol. 1816] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title Omitted]

REPLY OF PETITIONERS NEWARK PLASTER COMPANY AND EBSARY GYPSUM COMPANY, INC. IN OPPOSITION TO THE MOTION OF UNITED STATES GYPSUM COMPANY FOR A NEW TRIAL—Filed February 18, 1955.

United States Gypsum Company (hereinafter called "USG") has filed a Memorandum and Points of Authorities in support of its motion for a new trial herein.

This Reply thereto is submitted on behalf of petitioners Newark Plaster Company and Ebsary Gypsum Company, Inc. (hereinafter called "Newark" and "Ebsary", respectively).

[fol. 1817] Petitioners National Gypsum Company and Certain-Teed Products Corporation (hereinafter called "National" and "Certain-Teed," respectively) are submitting a Statement in opposition to the said motion of USG.

Petitioners Newark and Ebsary adopt and join in the Statement of petitioners National and Certain-Teed, but submit this Reply in order to supplement the said Statement.

As this Court found in its Finding of Fact 23, USG has instituted actions against all four petitioners herein, which are similar except that they differ with respect to the period of time for which the actions have been brought. All four actions cover periods beginning at approximately the same time in 1948. The periods in the actions against National and Certain-Teed end May 15, 1951, whereas the periods in the actions against Newark and Ebsary extend beyond May 15, 1951 to the filing in 1953 of the complaints in the actions against them.

Petitioners National and Certain-Teed are not involved in the periods beyond May 15, 1951 and have, in discussing in their Statement the barring by this Court of the actions against them, referring to the periods ending May 15, 1951 for which the actions against them were brought.

What petitioners National and Certain-Teed have said in their Statement about the periods ending May 15, 1951 is equally applicable to the additional periods ending in 1953 involved in the actions against petitioners Newark and Ebsary.

Both the Opinion and Conclusions of Law of the Court show that the Court barred USG from enforcing all the counts in each of the actions against the petitioners herein without limitation as to any period of time (Opinion, p. 38; Conclusions of Law 12 and 16).

[fol. 1818] Conclusion

For the foregoing reasons USG's motion for a new trial should be denied.

Respectfully submitted, DeWitt, Pepper & Howell, Attorneys for Defendant-Petitioner, Newark Plaster Company, 120 Broadway, New York 5, New York. Joseph S. Rippey, Attorney for Defendant-Petitioner, Ebsary Gypsum Company, Inc., 612 Powers Building, Rochester, New York.

[fol. 1819] In the United States District Court for the District of Columbia

[Title Omitted]

Reply Brief of United States Gypsum Company to Petitioners' Statement in Opposition to its Motion for New Trial—Filed March 10, 1955.

Petitioners' suggestion (pp. 1-2) that USG's motion is just a motion for reconsideration and rehearing, to be discouraged by the court, merely sets up a straw man. The fact is that USG has moved for a new trial, within the purpose and intent of the Federal Rules of Civil Procedure (Rule 59) and of this court's order of December 9, 1954, which expressly provided that the denial of consideration of certain questions theretofore raised by USG was without prejudice to its presenting, after entry of the decree, such proper matters as it may then deem advisable.

[fol. 1820] USG's motion, and its points and authorities in support thereof, are entitled to, and will undoubtedly be given, full consideration by the court. Petitioners' decision (pp. 3-4) not to answer many of the points raised cannot affect the scope of the matters presented for the court's consideration.

Petitioners contend (p. 4) that USG's claim of error in the court's ruling that there was continued misuse by the bringing of the suits only assails an alternative ground relied on by the court; that the main ground for enjoining claims for the period prior to May 15, 1951 was that it was clearly shown by the record that USG did not purge itself of its patent misuse prior to that time. This begs the question and is no answer to USG's point that such a conclusion could not properly have been reached without the taking of evidence on the purge issues raised by the 1953 petitions and USG's answers thereto (USG's P & A, pp. 9-11), and that therefore the only possible basis for the court's injunction, without the taking of evidence on the factual purge issues so joined by the pleadings, was its erroneous continued-misuse-as-a-matter-of-law-ruling by reason of USG's bringing suits solely for the recovery of money for use of its patents (USG's P & A, pp. 2-9).

(1) The Continued-Misuse-as-Matter-of-Law-Ruling.

Petitioners say (p. 5) that USG's statement in its points and authorities as to the apparent basis of this court's continued-misuse-as-a-matter-of-law-ruling is misleading and they set forth Conclusion 13 as the true basis for the ruling. But a reading of that conclusion, and particularly the statement that "the attempt by USG to enforce the royalty provision of the illegal patent license agreements is clearly misuse of its patents", only serves to demonstrate the accuracy of USG's analysis of the ruling.

Equally ineffectual is petitioners' attempt to distinguish [fol. 1821] the *Park-In Theatres* case (pp. 6-7) by saying that in that case the illegality of the license sued on was determined by the court which had the infringement claim before it, whereas in the instant case the illegality had been determined in a prior suit. The fact remains that in *Park-In Theatres* the court found that the plaintiff was suing for

royalties under an illegal contract and dismissed that count but at the same time refused to dismiss the infringement count in the complaint because of the factual purge issues presented, as petitioners concede (p. 6, last paragraph). The case still stands for the proposition for which USG cited it, *i.e.*, that a suit to recover royalty under an illegal contract does not *per se* constitute a continued misuse of a patent. It is obvious that petitioners' search for authorities has likewise failed to produce any case which supports this court's ruling.*

A substantial part of petitioners' statement (pp. 7-11) is devoted to an attempt to meet USG's argument that the court's continued-misuse-as-a-matter-of-law-ruling is in conflict with recent patent law codification. Although enactment of Section 271 may have been spurred by the *Mercoid* cases and subsequent rulings in contributory negligence cases, the section as passed dealt with both the matter of *infringement* and contributory infringement. Paragraph (a) defines infringement, paragraphs (b) and (c) deal with two kinds of contributory infringement, and paragraph (d) provides that a patent owner shall not be deemed guilty of misuse because of an effort to enforce patent rights against "infringement or contributory infringement." Petitioners' statement (p. 10) that the case [fol. 1822] and legislative history of Section 1 show that it was designed to clarify the law "only in the limited area of contributory negligence" is unwarranted and cannot change the clear language of the statute. Nothing in petitioners'

---

* In a footnote (p. 9) petitioners state that the *Stroco Products* case is a direct holding that the mere bringing of a suit can be misuse. That was not a suit for money for use of plaintiff's patent, but rather a suit involving the attempted restriction of sales of a non-patented item, which act the court considered a *per se* attempt to extend the scope of the patent monopoly. Nothing of that character is present here. USG's suits only seek compensation for the actual use of its patents. Moreover, the *Stroco Products* case, as well as all other cases referred to by petitioners, were prior to January 1, 1953, the effective date of the new patent law codification, which includes Section 271.

statement detracts from USG's contention that since it is the declared public policy that the mere bringing of a patent infringement suit is not misuse, then *a fortiori* a suit on a license agreement (which is a grant of immunity from suit for infringement) solely for the recovery of money does not and cannot in itself constitute patent misuse (USG's P & A, p. 4).

(2) The Hartford-Empire Case.

Petitioners' discussion of the *Hartford-Empire* case (pp. 11-14) suggests several pertinent observations.

In the first place, petitioners cannot avoid the point (USG's P & A, pp. 23-24, 27) that for the use of its patents, machines and services by its co-conspirators and others during the litigation period, Hartford-Empire was permitted by order of court to receive in excess of $7,000,000, whereas, in this case the court, apparently intending to rely on *Hartford-Empire* as a precedent, has denied USG the right to recover anything for the actual use of its patents by the co-conspirator defendants during the similar litigation period. Petitioners' statement (p. 12) that the court in *Hartford-Empire* had the special problem of dealing with ear-marked royalties is no answer. If that court had so desired, it could easily have given the licensees a "free ride" by ordering the receiver to return the royalties which each had paid into the fund. It did not choose so to confiscate the patentee's property to the special benefit of its co-conspirators, but rather approved Hartford-Empire's receipt of compensation for use of its patents *pendente lite*.

Secondly, petitioners are unjustified in their reliance (p. 12) on language in the first Supreme Court opinion in [fol. 1823] *Hartford-Empire* that "in view of the nature of the conspiracy" further prosecution of suits for infringement pending at the date that suit was brought (in 1939) should be enjoined. The "nature of the conspiracy" there was to monopolize the glass industry by combining all glass patents and forcing everyone in, if not voluntarily then involuntarily by harassing infringement litigation. Harassing suits of that type are in no way comparable to USG's efforts to collect for the actual use of its patents by its

co-defendants, *pendente lite*. Petitioners' situation is like that of Hartford-Empire's co-defendants who were compelled to pay for the use they made of its patents. Moreover, the *Hartford-Empire* final decree, in enjoining the corporate defendants from seeking recovery for infringement for prior use of the patents, expressly excepted from that injunctive provision any such attempted recovery "against any other corporate defendant" (par. 16(c) of *Hartford Empire* Final Decree of October 31, 1945).

Thirdly, petitioners cannot avoid the fact that although the court in *Hartford-Empire* included an injunction against suits for infringement prior to the decree (except suits "against any other corporate defendant"), the court in this case did not include any such prohibition against USG, either in formulating its first decree entered November 7, 1949, or its second decree entered May 15, 1951.

Fourthly, petitioners' reference to the period in which *Hartford-Empire* collected royalties from its co-defendants as being for the period "between the initial and final decrees" (p. 12), spotlights the manifest error in this case in the failure of the findings, conclusions and decree of December 9, 1954, to give full significance and effect to this court's first decree of November 7, 1949.

Finally, it is of interest to see that the petitioners conclude their argument (p. 13) by agreeing that this court did misconstrue the *Hartford-Empire* case in its ruling [fol. 1824] that the Supreme Court there intended to draw a distinction between suits for infringement and for *quantum meruit* recovery for use of the patents.

(3) Quantum Meruit Recovery (Appendix A).

Petitioners refer (p. 14) to a brief footnote comment regarding *quantum meruit* in National's original brief and attempt to develop the point (although strictly not in answer to USG's Points and Authorities) by an Appendix A entitled "A *Quantum Meruit* Claim Will Not Lie for Use of a Patent." The argument presented is without merit.

It is quite probable that one cannot sue for a *quantum meruit* recovery on account of *infringement* of a patent. It is not surprising that petitioners were unable to find any

cases holding otherwise.* The point, however, is irrelevant. In its pending suits USG does not seek a *quantum meruit* recovery for infringement of its patents, but rather for a use of its patents under circumstances from which the law would imply a promise to pay.** This court has heretofore ruled (Op. of 7/6/54) that the *quantum meruit* counts in the pending suits are "proper and prosecution thereof should not be enjoined" except for the continued misuse doctrine which the court erroneously, we submit, applied. [fol. 1825] Moreover, it does not help petitioners to claim that *quantum meruit* would not lie because there is no common law basis for recovery for patent infringement. A patent is a property right, and at common law a promise to pay was implied by the law where the use of another's property was under circumstances warranting it.

Petitioners Newark and Ebsary have filed a 3-page "Reply" in which they join in the Statement in Opposition

---

* There is, of course, authority for the proposition that a patentee may waive the tort and sue in assumpsit for the money (*Henry* v. *A. B. Dick Company*, 224 U. S. 1, 14 (1912); *Walsh* v. *Albert Wahle Co. Inc.*, 25 F. 2d 350 (D. C. E. D. N. Y. 1928); Waiver of Tort and Suit in Assumpsit, Yale Law Jr. Vol. XIX, p. 231). In the *A. B. Dick* case the court said (p. 14): "That the patentee may waive the tort and sue upon the broken contract, or in assumpsit, is elementary, * * *", but pointed out that in such a case a Federal court would have no jurisdiction unless diversity of citizenship existed, saying: "This would be so although the damages for a breach would be measured by the loss resulting from the infringement."

** Of interest is petitioners' statement (p. 15 fn.) that "there are no contracts implied-in-fact in this case." The citation (National's original brief, pp. 35-37) does not support this statement, but on the contrary refers to a discussion attacking Count III of USG's pending suit against National in Iowa, assuming that it be read "as alleging an express or implied in fact agreement." Thus, petitioners finally accept USG's statement repeatedly made that in Count III it sought a *quantum meruit* recovery on a factual situation from which the law would imply a promise to pay.

filed by petitioners National and Certain-teed, and further state that everything there said about the period ending May 15, 1951 "is equally applicable to the additional periods ending in 1953." This obviously does not follow, for the National-Certain-teed statement does not pretend to challenge the purging effect of the final decree of May 15, 1951 or to deal with the period subsequent to that date.

Petitioners' statement does not present any sound reason in opposition to USG's motion for new trial. The motion should be granted for the reasons set forth in USG's supporting Points and Authorities.

Respectfully submitted, Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., Attorneys for Defendant United States Gypsum Company.

Cravath, Swaine & Moore, 15 Broad Street, New York 5, New York, MacLeish, Spray, Price & Underwood, 134 South LaSalle Street, Chicago 3, Illinois, Macleay & Lynch, 1625 K Street, N. W., Washington 6, D. C.

[fol.1826] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

Holding a Three-Judge Statutory Court

Civil Action No. 8017

UNITED STATES OF AMERICA, Plaintiff

v.

UNITED STATES GYPSUM COMPANY, et al., Defendants.

REPORTER'S TRANSCRIPT OF HEARING OF MOTION FOR NEW TRIAL—APRIL 26, 1955

Court Room No. 16, Sixth Floor
United States Court House
Washington, D. C.

Tuesday, April 26, 1955.

The above-entitled cause came on for oral argument on petition of United States Gypsum Company at 10:00 a.m.,

pursuant to notice, before Honorable Kimbrough Stone, Honorable William P. Cole, Jr., and Honorable Eugene Worley, sitting as the District Court of the United States for the District of Columbia.

Appearances:

Edward Knuff, Esq., Special Assistant to the Attorney General; and

Vincent A. Gorman, Esq., Trial Attorney, on behalf of the United States of America.

Cranston Spray, Esq., Bruce Bromley, Esq., Hugh Lynch, Jr., Esq., and Arthur A. Olson, Esq., on behalf of the United States Gypsum Company.

[fol. 1827] Samuel I. Roseman, Esq., Elmer E. Finck, Esq., and Seymour D. Lewis, Esq., on behalf of National Gypsum Company.

Norman A. Miller, Esq., on behalf of Certain-teed Products Corporation.

Joseph S. Rippey, Esq., on behalf of Ebsary Gypsum Company, Inc.

Benjamin P. DeWitt, Esq., on behalf of Newark Plaster Company.

[fol. 1828] PROCEEDINGS

The Clerk: Case of United States of America versus U. S. Gypsum Company and others, Civil Action Number 8017.

Judge Stone: Are the parties ready to proceed in the presentation of this matter of a new trial?

(All sides are ready.)

Judge Stone: Under the communication to counsel, I think you were informed that the court would allow three hours to a side for presentation. Of course, the United States Gypsum will have half of that time, but should present its full argument in its opening and not use more than half of the allotted time in closing.

Counsel representing the other parties may divide their time as they may arrange between themselves.

As a matter of saving a little time, if you gentlemen will hand to the Clerk and the Reporter at the noon recess your names and the parties whom you represent so that they can be entered in the record.

The program of the court so far as time is concerned will be to proceed until one o'clock, with maybe a short recess of a few minutes, resume at two and do likewise in the afternoon. Are you gentlemen ready on the part of the United States Gypsum Company to present your case?

Mr. Spray: Yes, your Honor.

Judge Stone: You may be heard.

---

fol. 1829] ARGUMENT ON BEHALF OF UNITED STATES GYPSUM COMPANY

By Cranston Spray, Esq.

Mr. Spray: I am Cranston Spray of MacLeish, Spray, Price and Underwood, Chicago attorneys. I represent the United States Gypsum Company, along with Judge Bromley of the firm of Cravath, Swaine and Moore of New York City. I want to make it clear that if it is satisfactory with the court, in view of the announcement, that it was our plan to take perhaps between two and two and a half hours in our presentation and reserve a half hour or three quarters of an hour for our reply. That would be satisfactory?

Judge Stone: That is satisfactory.

Mr. Spray: At the outset, may it please the court, I should like to take a few moments of the time allotted to us in an effort to present to the court what I believe was the true attitude of this court as presently constituted toward United States Gypsum Company and the other defendants in this case. I think that is appropriate since in large part this court is faced with a very difficult task of trying to draw from the cold, written record proper conclusions as to the intent and purpose of the court in the decision which it made back in 1948, sustaining the Government's motion for summary judgment and as to the scope and the extent that it was intended by them in the various provisions contained first in the decree of November 7, 1949 and then in the decree of this court of May 15, 1951.

As I have studied this court's opinion of July sixth, [fol. 1830] opinion of July sixth, 1954, it seemed quite clear to me we have failed adequately to apprise this court or to

enlighten this court as to the history and background of this litigation so that it could catch the spirit and intent of the judges who participated in these decisions and decrees.

I feel that the responsibility for that failure falls on Judge Bromley and myself. For although certain of the attorneys who participated in the last argument have been identified with this case from the very beginning, none of them with the exception of Mr. Knuff of the Government, who did not participate in this part of the argument which is before the court today, none of them had the same close association with the case as did Judge Bromley and I.

We sat with the—we were involved in the matter from the outset and we sat with the court day after day, week after week, month after month, as the Government evidence was being introduced. We participated in all the post-trial arguments and had the fullest opportunity of sensing the feeling of the court with respect to the defendant companies, including the United States Gypsum Company.

Now, it is crystal clear, I submit, that Judge Stephens and Judge Garrett and Judge Jackson did not consider these defendants as scheming conspirators acting in deliberate violation of the Sherman Act. That fact is amply evidenced by Judge Stephens' opinion, which was rendered as the [fol. 1831] unanimous opinion of this court on June 15, 1946, and by the unanimous action of the court in the findings of fact and conclusions of law and order of dismissal which were entered here on August fifth, 1946. There can be no question but that the court was completely satisfied that U.S.G. and the other defendants had acted in complete good faith in reliance on the General Electric case in entering into the license agreements, and that there was no purpose or intent on the part of any defendant to use the licenses as a guise for fixing prices in unpatented products or for use as a guise in doing these other things which are traditional violations of the Sherman Act; that there was no conscious or intentional misuse of the patents here involved.

When the case came back on remand following the first Supreme Court decision, there can be no doubt and it appears on the written record, that the jurisdiction of this

court had not changed in any way their view as to the conduct of the defendants.

The Supreme Court had spoken, and of course its word was to be followed by this court. As Judge Garrett stated in substance when we were before the court as to the terms of the provisions of the first decree, he said the Supreme Court has spoken, and of course its will must be followed, but we have not changed our views as to the facts of this case, and we should not be called upon to make findings of fact contrary to our views which were opposed to the facts which we found here when the matter was before us two years before.

[fol. 1832] Judge Jackson, at another point in that proceeding rather explosively challenged the Government when he thought, mistakenly, but he thought that Mr. Knuff was suggesting that the U.S.G. should be called upon to forfeit its patent rights and grant royalty-free licenses. Both he and Judge Garrett emphatically stated that there was no question of bad faith or evil intent here, that no one could question that the defendants had acted in the utmost good faith in reliance on the General Electric Case.

It was quite obvious that the court felt that the Supreme Court had changed the law on us just as it had changed the law on them, and Judge Garrett, with his typically dry humor, illustrated the point by a story when he referred to the lawyer who was arguing his case before the court and was interrupted by the court, which said, when the court said, "That is not the law." And the lawyer said, "It was until your honor just spoke."

Judge Stephens' view with respect to these—the extent of the defendants' wrong-doing, is quite obvious from his opinion, and from his refusal to join in with the majority who supported the Government's motion for new trial.

I respectfully submit that in endeavoring to appraise the full significance of the decrees entered here in this case of November 7, 1949, and again on May 15, 1951, this court should consider the provisions of those decrees in the light of this obvious feeling of the respective judges that they were called upon to rule against the defendants, not because [fol. 1833] of any great and scheming wrong which the court felt that they had done, but solely because of a technicality which had developed in the evolution of the law

with respect to past patent license agreements, and I respectfully submit that the opinion rendered by this court last July and the findings of fact and conclusions of law and decree which were entered last December 9, failed to show appreciation of that attitude on the part of the judges who formulated and entered the decrees first in November of 1949 and then in May of 1951, and that they reached conclusions inconsistent with and contrary to the purpose and intent of the court as to the scope and effect of the various provisions of the decrees which this court is now called upon to construe.

I would also like to take just a few moments at the outset to be sure that we have made clear our position as to the two Supreme Court decisions which were rendered against the defendants in this case.

The first opinion rendered on March 8, 1948, could only have been dealing with the prima facie case. Only the Government's evidence had been received. The defendants had not presented their case. We had made a motion for dismissal under rule 41 (g) of the Federal Rules of Civil Procedure, which provided then, as it does now, that at the conclusion of the plaintiff's case the defendant may move to dismiss without waiving in any way his right to proceed with his evidence if the motion is denied.

The question raised on such a motion then was merely [fol. 1834] whether the plaintiff had by his evidence produced enough to make out a prima facie case and thus compel the defendant to proceed with its evidence.

As the Supreme Court said in holding that there was error in granting the motion under Rule 41 (b), we think that the industry-wide license agreements entered into with knowledge on the part of the licensor and the licensees of the adherence of others with the control over prices and methods of distribution through agreements and the bulletins, were sufficient to establish a prima facie case of conspiracy; thus everything said in that opinion must be read, I submit, in the light of the fact that the court was dealing only with the Government's evidence and consequently only with the question of whether a prima facie case had been made. And this is equally true as to those matters charged in the complaint which fell within the

traditional abuses of the Sherman Act, such as fixing of prices on unpatented products and the like.

In retrospect, it was probably a mistake for us to have moved under Rule 41 (b) for a dismissal, although I think the action was excusable and understandable, but we had been here in trial for months before a court which had not only this case but duties of—other duties in the respective courts to carry on, and when it seemed that there was a way to cut the matter short by such a motion, it certainly seemed the logical thing to do. But we had no idea that we were thereby cutting our right to put in our evidence [fol. 1835] or to be heard because the rule expressly provided other ways.

Now, upon remand, it was expected, of course, that the defendants would put in their case, and then the Government came forward with its motion for summary judgment, which we, of the defense, understood, and I think the court understood, to be based upon the proposition that you could lay aside all these controversial issues of fact and still the Supreme Court decision would entitle the Government to summary judgment on the fact which could not be contradicted, namely, the fact that there were licenses with price fixing throughout this industry that were adhered to by the parties in the fixing of prices of the patented board manufactured and sold under the licenses.

As Mr. Steffan, who was representing the Government along with Mr. Knuff, said in his presentation of that motion, we could lay aside all these controversial issues, such as fixing of prices on plaster, eliminating jobbers and the like, and still the Government would be entitled to relief because of what is said in the Supreme Court opinion.

It is perfectly clear, your Honors, that the decision of Judges Garrett and Jackson in sustaining the Government's motion was, of necessity, a very narrow adjudication. It was based, as they said, upon the assumption of the truth of all the defendants' proffered proof.

I shall not, of course, take the time here to go into that [fol. 1836] proffered proof. It is set out in abstract form and yet in some detail at pages 22 to 26 of the original brief, which we filed with this court in September, on September 8, 1953, but I respectfully urge that the court, if it—in the giving of reconsideration of these matters, I

urge that the court again read the proffered proof with the thought that it might give a more complete understanding of the purpose and effect of some of the provisions incorporated in the court's decrees which this court now must try to construe.

Suffice it to say that the assumption of the truth of the defendants' proffered proof took out of the case the manifold charges of misuse of patents and the Sherman Act violations which were originally charged in the complaint, and cut down the case to the proposition that the industry-wide licenses were price fixing, entered into with knowledge of the parties, facts which we could not deny and did not try to deny in our proffered proof, constituted a concerted action in restraint and monopolization of trade, and, therefore, in violation of the Sherman Act for which the Government was entitled to relief.

Now, the second, and I want to say a word about the second Supreme Court decision, for it accepted this court's limited adjudication and it justified its dismissal of U.S.G.'s appeal on that basis. The Supreme Court said in its opinion that it read the preliminary statement and the decree itself as an adjudication of violation of the Sherman Act by the action in concert through the fixed price [fol. 1837] licenses, accepting as true the underlying facts in the defendants' proof of proffer. That the trial judges understood the summary judgment to be, and I am quoting as Judge Stephens said, "limited to that undisputed question."

And that conclusion entitled the Government only to relief based on that finding and on the proffered facts, and that on that basis the court had dismissed U.S.G.'s appeal and was considering the Government's objection to the decree.

The Supreme Court's action in ordering an expansion of certain provisions of the court's first decree, and I want to emphasize that, the action in expanding the provisions of the first decree, that was based upon the simple proposition that once you have established a law violation, then the Government is entitled to broad, ample relief, and is not limited, as the court said, to the narrow issues of the proven violation. That was the reason for the expansion of that decree. It was not that the court expanded the

adjudication of illegality to cover all these other traditional violations of the Sherman Act which were involved originally in the complaint but which were cut out of the case when it took the turn of a motion for summary judgment, assuming the truth of all the proffered proof which the defendants had offered.

Now, we believe we are justified in concluding that the court's opinion of July 6, 1954, did not, it failed to give full force and effect to these limitations on the scope of the [fol. 1838] two Supreme Court opinions which must be kept in mind if a proper appraisal is to be made of the meaning of the various provisions of the decrees in this case that were entered in '49 and '51.

Thus the opinion of July 6, 1954, states that the Supreme Court in its first opinion determined that there was conspiracy to control prices and to monopolize the Gypsum industry; that the results created and applied to effectuate the purposes were license agreements covering patents owned by U.S.G.; that the license agreements covered: (a) control of prices of patented Gypsum board, (b) controlled affection of prices of unpatented products, and (c) control over terms and conditions of sale and distributions thereof; and that in the second Supreme Court opinion the court expanded its ruling to find that the license agreements covered control of prices of Gypsum, unpatented products as well as the patented board. Moreover, the opinion dealt throughout with that first Supreme Court opinion as if it had constituted a ruling of broad violation after a full hearing and not merely a determination with respect to the prima facie case at the close of the Government's evidence and without regard to the defendants' proffered proof.

And it dealt with the second Supreme Court opinion as if everything said there was not subject to the court's accepting, as it did, the defendants' proffered proof as true.

Now, we recognize that technically certain of these points were corrected in the findings that were entered last [fol. 1839] December. For example, the words "prima facie" were inserted in finding of fact 4, which dealt with the first Supreme Court opinion, and there was stricken from finding 5, dealing with the second Supreme Court opinion, that erroneous reference that it had expanded

the adjudication to hold that the license agreements covered prices of unpatented Gypsum products as well as board, but it just seems reasonably clear that the apparent failure to give full force and effect to these limitations, which we believe must be read, to the two Supreme Court opinions had a substantial bearing on the other conclusions reached by the majority of the court, which found their way into the various findings and conclusions entered on December 9 and materially influenced the decree of that date which enjoined U.S.G. from further prosecution of all counts of its pending suits, and thus denied for all time U.S.G.'s right to compensation for the use of its patents during this 1948-51 period.

Now, one other point which I would like to mention in a preliminary fashion is that we feel the court has overlooked the fact that U.S.G. and the defendants, National, Certain-teed, Newark, Ebsary, and the others were effectively barred against the misuse of U.S.G.'s patents long before this decree took final form in this case. We believe that if that point had been fully appreciated, it is difficult to understand some of the conclusions reached and the decree which was entered.

Just to illustrate as a practical matter, when the Su- [fol. 1840] preme Court on March 8, 1948, came down with its decision that there was illegality prima facie in these license agreements, no person in his right mind would have tried to fix prices under those license agreements until we knew what the full significance of that decision was.

National says, in its petition filed with this court, and in the briefs in support of it, that the first Supreme Court decision found these license agreements illegal, and this court, by its findings 4 and 5, has accepted that view.

If, on March 8, 1948, the Supreme Court held that these licenses were illegal, then they were of no valid effect and to try to fix prices under them would have been patently illegal.

If U.S.G. had not stopped fixing prices years before that, back in 1941, it would have been compelled at that point to have ceased trying to fix prices under those licenses.

Now, certainly, if there could be any possible question about that when we were before this court on June 29, 1948, and the court by a two to one majority sustained the

Government's motion for new trial and found that there was illegality in the licensing setup in this industry, the use of the price fixing provisions in the licenses was for all practical purposes effectively stopped, and in this connection I would like to pause to point out to the court that this determination came in June of 1948, within a few months after the first Supreme Court decision, and not on June 14, 1949 as this court erroneously finds in its find-
[fol. 1841] ing Number 10, which was entered last December 9.

Then, again, on November 7, 1949, is another significant date. Because from that point on U.S.G. and its co-defendant companies became subject to specific injunction of this court against misuse of the patents by price fixing under the licenses.

And as this court held in its conclusion Number 7, which it entered last December 9, and I am quoting Article 4 of the decree of November 7, 1949, nullified completely the license agreements listed in Article 2, "The court further held that this nullification did not create a status but merely declared a status which had existed since the granting of the patent licenses.

There cannot be a shadow of doubt as to the effective bar against misuse of U.S.G.'s patents from that point on, not only by reason of the court having entered a specific injunction against us but by reason of the declaration which nullified completely these license agreements, and there was no possible basis for any further misuse of the patents by reason of the price fixing provisions in the licenses after that date.

Nor can there be the slightest doubt, your Honors, as to this court's intention of recognizing and establishing U.S.G.'s right to compensation for the use of its patents, at least from that point on, for the decree of November 7, 1949, guaranteed to these defendant licensees the right to continue to use U.S.G.'s patents, but upon payment of a reasonable compensation to U.S.G. for that use.
[fol. 1842] Moreover, from May 29, 1950, another date in this period, the defendants in this case were under injunction not only from this court but also from the Supreme Court against any misuse of the patents under these

patent license agreements or under any other arrangement or agreement in violation of the Sherman Act.

The effectiveness of the operation of these rulings and orders, decrees, as a bar against the misuse of U.S.G.'s patents by it or by any of the other defendant licensees, is clear from the fact that there has not been any suggestion made that there was during this entire proceeding that either U.S.G. or any of the defendants have violated any of the injunctive provisions of these decrees or orders.

Had this court fully appreciated the record in this respect, it is difficult to understand how it could have concluded, as it did in conclusion 11 which it entered last December 9, for example, that, and I am quoting, "The course of conduct of U.S.G. as clearly shown by the proceedings of record in the anti-trust case and in these suits brought by U.S.G. establish that U.S.G. did not purge itself of its patent misuse at any time prior to May 15, 1951 or" *or* conclude, as it did in conclusion 12 that was entered on that date, "that in view of the misuse by U.S.G. of its patents as a matter of law on the facts here which has not been purged, all claims of U.S.G. are barred and U.S.G. [fol. 1843] should be enjoined from all counts of these actions."

In our argument with respect to these specific errors in the matter of purge, I might say, will be handled specifically by Judge Bromley in his following argument. We will have occasion to refer to a number of the points which I have just reviewed in a preliminary fashion, but it seemed to me appropriate to bring that out because merely a statement of them raises to my mind a serious and substantial doubt as to the soundness of this court's decision to make short shrift of U.S.G.'s claim for the use of its patents during this period from 1948 to 1951.

Now, the first specific assignment of error in support of our motion for new trial is that there was fundamental error in the court's opinion of July 6, 1954, and in the findings, conclusions and decree of December 9, 1954.

In the ruling that continuing, unpurged misuse of U.S.G.'s patents exists as a matter of law because it seeks compensation from its co-conspirators for the use of its patents. As a consequence of this ruling, the court con-

cluded that U.S.G. should be enjoined from further prosecution of all the counts of these pending suits.

This determination cannot be based on any factual situation existing during the 1948-1951 period or in fact for many years prior to.

The evidence in this case was closed on April 19, 1944, and the evidence did not go beyond the period of 1941, so [fol. 1844] that we have no evidence in this case that was received that antedates or that post-dates 1941. Nor can it be based upon any claim that U.S.G. is using its patents to fix prices or to monopolize trade by the license agreements or other acts or courses of action or attempting to enforce the price limitation provisions of the license. There is not an iota of evidence that U.S.G. has attempted to fix the price under these patent license agreements since 1941, when all its price bulletins were withdrawn as this court concedes in its finding of fact Number 22 (a).

Moreover, as I have just shown during practically all of this 1948-51 period, U.S.G. was under an effective restraint against any misuse of its patents through operations under these license agreements, and during a substantial part of that period all of the defendants, including U.S.G. and the licensees were under injunctive order against misuse under those patents by this court and by the Supreme Court.

I have also pointed out that no suggestion has been made that there has been any violation of any of those injunctive provisions against the defendants.

The court has made this erroneous continued misuse as a matter law ruling, I submit, because of the fact that U.S.G. found in 1953 that if it was to collect for the use of these patents, it would be compelled to file suit against these defendant licensees or petitioners to recover the money for the actual use of the patents during that period, for which use compensation had never been paid.

[fol. 1845] The court apparently concluded that such a money action in some way constitutes a misuse of its patents by U.S.G.

We believe that this erroneous determination rests upon the facts, first, that we felt compelled to include in those suits counts 1 and 2 which were based on the old license agreements; and secondly, because the other counts cover-

ing quantum meruit and infringement asked for the same—had the same ad damnum clause as that that was contained in counts 1 and 2. In National's and Certain-teed's opposing statement which was filed in opposition to our motion for new trial, it was held that this was misleading because they say that this court did not hold that the mere bringing of suit for money resulted in a misuse of patents, and in support of that they refer to conclusion 13, but a mere reading of that conclusion and particularly that part which reads that the attempt of U.S.G. to enforce the royalty provision of the illegal patent license agreements is clearly misuse of its patents, I submit, only serves to demonstrate the accuracy of our analysis of this court's ruling.

Moreover, at the June 9, 1953 preliminary hearing, which we had here, at which Judge Cole was present but unfortunately Judges Stone and Worley had not taken their place on the bench at that time, Judge Rosenman stated as part of National's contention that, and I am quoting, "The very bringing of the suit is a misuse of the patent." [fol. 1846] Now, it only takes a reading of the complaints to see that all that the suits were seeking was a recovery of money for the actual use of the patents.

At the threshold, then, of our consideration of our motion for new trial is the question whether or not a suit by U.S.G. solely for the recovery of money for the use of—actual use of its patents, could possibly constitute a misuse of its patents such as would deprive it of the right to recover for the actual use as this court has held.

We say that it could not be. In the first place, it is—there is no authority for it. In fact, we say it is contrary to the only authority that we have been able to find. The court cites no authority, and from a very exhaustive research we do not believe any authority could be cited in support of this proposition.

It is obvious that the petitioners have been unable to find the supporting authority, for they say in their brief that certainly it would be difficult to find such a case.

At another point in their brief, they make an ineffective effort to supply some authority by saying that the Stroco Products case is one which can be cited as evidence that

the mere bringing of a suit could constitute a misuse of patents.

But that suit does not bear scrutiny as support for this court's ruling, for there what had happened was a suit had been brought in which it was claimed that there was infringement because of the sale of a non-patented item to go [fol. 1847] into the patented structure, and the court was of the belief that the very suit to try to restrict the sale of the unpatented product was of itself an attempt to extend the monopoly of the patent, and, therefore, a misuse of the patent.

Now, there is nothing of that character in this case, where, as I have stated, we are only seeking a money judgment for the actual use of the patents.

Moreover the Stroco Products case, as well as all the other cases cited in the petitioners' memorandum in opposition, were all prior to January first, 1953, the effective date of the new patent codification which I will deal with in just a moment.

The only case that we are aware of that has any bearing on this particular point is the Park-In Theatres case, which is cited in our points and authorities in support of our motion, and that case is contrary to this court's ruling.

The court rejected the defendants' motion for summary judgment on the infringement count, but at the same time dismissed the first count which was based on the contract, the basis of the dismissal being that the contract was illegal and in violation of the Sherman law.

Yet the court, although dismissing that one count, refused to dismiss the infringement count on the ground that purge raised questions of fact which could not be determined in a summary fashion such as a motion for summary judgment.

The petitioners seek to avoid the force of this decision [fol. 1848] by saying that the case is not in point, but their subsequent argument fails to support them.

The point of difference turns out to be merely this: In the Gypsum case the illegality of the licenses had been determined prior to the filing of the suit. In the Park-In Theaters case, the illegality of the license was adjudicated by the very court and in the very action in which the court

had knocked out the license agreement but refused to dismiss the injunction count.

I submit that that is a distinction without a difference. If suit to recover royalties under an illegal license agreement constitutes a misuse of a patent, then that must be so whenever the fact of illegality is established. Nor could it make any difference that in a prior case some District Court had thought that these license agreements were O.K., and legal.

The fact of the matter is that the court, which refused to dismiss the infringement count, found the licenses illegal as in violation of the Sherman Act, and yet did not think of treating the mere fact that a suit had been brought on those license agreements as constituting a misuse of patents that should bar the plaintiff from trying to recover for—under the infringement count.

Moreover, this continued misuse as a matter of law ruling, conflicts with the proposition that a suit to enforce a patent right is not, per se, against public policy, a proposition recently affirmed in the new codification of the patent laws which went into effect January 1, 1953, just shortly [fol. 1849] before the filing of U.S.G.'s suits.

That codification includes Section 271 (d) which provides that no patent owner otherwise entitled to relief for infringement shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having sought to enforce his patent rights against infringement or contributory infringement.

The granting of a license is nothing more or less than the granting of immunity against infringement.

A patentee's right to grant a license and receive compensation therefor is, we submit, clearly an enforcible right within the meaning of the declared public policy as set forth in the new patent law codification.

Since it is the declared policy that the mere bringing of a suit for infringement of a patent is not misuse, it must follow that a suit on a license agreement, such as on counts one and two, solely for the recovery of money does not of itself and alone constitute misuse.

The defendant petitioners appear to be somewhat disturbed with this point which we raise because they spent a substantial part of their memorandum in opposition in

trying to answer it. But the answer is without substance. They first say, in the first place, that the statute is limited solely to enforcing rights against infringement, and that U.S.G. not only had an infringement count but other counts on quantum meruit and counts one and two.

[fol. 1850] In that statement they are merely, I submit, supporting our claim which they had earlier charged was misleading, that this continued misuse ruling was primarily based on the fact that we had included counts one and two in the complaint.

Next, they say, in trying to answer this point, that it is apparent that the purpose and effect of section 271 was to correct a situation which had arisen in the Mercoid and other related cases, where a patentee who was using his patent as an effective means of restraining competition in an unpatented article was guilty of misuse and could not succeed in a contributory infringement suit even though the unpatented device was to be sold and used as an integral part of the patented system.

They contended that these cases and subsequent cases had raised a question as to whether you could ever have contributory infringement action under those circumstances, and that that was the purpose of section 271.

Now, although the enactment of section 271 may have been spurred by the Mercoid and the related cases, the fact of the matter is that the Section as passed dealt not only with contributory infringement, but with infringement as well. Thus, in 271 (a) infringement is defined. In sections 271 (b) and (c), two forms of contributory infringement are defined, and in subsection (d) it is provided that a patent owner shall not be deemed guilty of misuse merely because of an effort to enforce his patent rights against infringement or contributory infringement.

[fol. 1851] The petitioners' effort to limit the application of section 271 to contributory infringement suits is refuted by the case of Cole versus Hughes Tool Company in 215 Federal (2d), a Tenth Circuit Court of Appeals case.

There, suit had been brought for infringement of the plaintiff's patents and the contention was made that this effort to monopolize the particular field constituted a misuse of plaintiff's patents.

In denying the contention, the court stated that the bring-

ing of infringement suits to protect its lawful monopoly did not—in doing so, the plaintiff was guilty of no misuse of its patents, citing there section 271 and quoting in full section (d) which we point out in our points and authorities.

The defendant petitioners have not submitted a sound contention that this court's continued misuse as a matter of law ruling, based as it is on U. S. Gypsum's suit solely for recovery of compensation for use of its patents, is in conflict with the public policy as declared in section 271 of the patent law codification.

That alone should be sufficient to require the setting aside of this continued misuse ruling.

Now, another point we urge as showing error in the continued misuse as a matter of law ruling is that the——

Judge Stone: May I interrupt you just a moment?

Mr. Spray: Surely.

[fol. 1852] Judge Stone: Is the Cole case cited in your brief?

Mr. Spray: Your Honor, that is the case which I addressed a letter to your Honor saying that it was inadvertently omitted from the brief. It was in the reply brief which we asked leave to file and I am not sure that an order has been formally entered.

Judge Stone: I don't think I received that. That is the reason I am asking.

Mr. Spray: Well, I am certainly sorry.

Judge Stone: It is not your fault; it is somewhere else. Will you give it to me?

Mr. Spray: It is Cole versus Hughes Tool Company, 215 Federal (2d) 924, a Tenth Circuit case.

Judge Stone: Thank you.

Mr. Spray: And it is a decision, it is a 1954 decision, I might say, and we missed it in our reply brief but I followed it up with the letter right after that brief was submitted.

The defendant petitioners, as I say, have not given an answer to that patent codification law point.

Another point which we urge as showing error in this ruling is that it is inconsistent, we submit, with the May 15, 1951 decree.

If that decree determined anything with respect to the

rights between the co-defendants in this case, it was that the court wanted to be sure that these defendant licensees should have the right to continue to use U.S.G.'s patents on [fol. 1853] which they had been operating for a period of years, but that, at the same time, that U.S.G. was to receive compensation for that use of its patents.

Nor can anyone, by any stretch of the imagination, contend that by its suits U.S.G. is attempting in any way to enforce the price-fixing provisions of its licenses, which, as this court recognized, was the heart of the adjudication of their illegality.

All, as I have said, and I repeat, that we were trying to do was to recover fair compensation for the actual use of the patents. This is entirely consistent with the provisions not only of the decree of May 15, 1951, but also the provisions of the decree of November 7, 1949, and as I stated in my preliminary remarks, it certainly is clear that as far as Judges Stephens, Garrett, and Jackson were concerned, there is no doubt but what they thought that, at least from that date, U.S.G. should receive compensation for the use of its patents for the decree expressly so stated.

Moreover, the suits are consistent with the Supreme Court's order of May 29, 1950, which I have referred to. That order enjoined any further use or attempted use of the price-fixing provisions or any other price-fixing arrangements in this industry, but it carefully avoided any language that would have made it a violation of the order for the defendents to continue to use U.S.G.'s patents or for the defendants to pay for that use or U.S.G. to receive payment for such use.

The order is carefully limited so it did not affect that in any way.

[fol. 1854] Even if counts 1 and 2 should be held, as this court has ruled, to be inconsistent with article 4 of the May 15 decree, 1951, decree, there is no basis for holding that such a violation, involving as it did only the attempt to collect money for actual use of the patents, for holding that that constituted a misuse of the patents. To so hold is to inject a principle, without benefit of authority or evidence, that is inconsistent with this court's prior adjudications and determination as to U.S.G.'s right to receive com-

pensation whenever and wherever this court in the past has come in contact with the matter of defendants' continued use of U.S.G.'s patents.

Now, we further contend that the continued misuse ruling is inconsistent with and violates rules of modern pleading and, specifically, that it is inconsistent with Rule 8 (e) (2) of the Federal Rules of Civil Procedure.

That Rule clearly authorizes a party to set forth two or more statements of claim or defense, either in separate or the same counts, and expressly provides that the insufficiency of one statement or more than one statement shall not in any way affect the complaint, if there is a sufficiently stated statement of claim in the complaint.

It further provides that a party may state as many claims as he has, regardless of their inconsistency.

I feel that possibly I did not make it clear the last time I argued before this court as to why we felt compelled to [fol. 1855] include these various counts which we did in the outlying suits.

We had reached a point where we realized if we were ever to get paid for this use of our patents we would have to bring a suit, but the factual situation was a little difficult.

If the defendants had been using our patents without license or without authority, then, of course, we had the right to sue for infringement.

But if there was some authority for the use, either by express contract or an implication in law, then, of course, we could not succeed in infringement and we had to have a suit on the contract of some form. But it was not as simple as that. We did not know for sure what the ultimate proof might establish and what the court might hold as to what that authority was, whether it was by express contract or whether it was under facts from which the law would imply an agreement to pay, and, therefore, we felt we had to state the alternate claims.

We also recognized the possibility that some defendant in one of these cases would come up and say, as his authority for using the patents, "Why, I had a license from you," and refer to the old license agreement, just as Na-

tional actually did in its defense that it filed out in the Iowa suit we brought against National.

Now, it was in anticipation of such a defense that we felt compelled to include counts 1 and 2, lest the court might rule that, "You did not state your proper basis of claim," [fol. 1856] and that ruling could come after the Statute of Limitations had run and we would be out of luck as far as recovery was concerned.

We felt that a count on the old contract must be included as a proper and necessary precautionary measure actually authorized by the Federal Rules of Civil Procedure.

Certainly, no authority had ever before suggested that such precaution on the part of the lawyer would result in a claim that the plaintiff had thereby misused its patents and forfeited its right to recovery under any theory.

It is obvious that the inclusion of those counts was, I believe, a fundamental reason for this continued misuse as a matter of law ruling, for not only in the opinion but also in its conclusion 13, this court has stated that, and I am quoting, "The attempt by U.S.G. to enforce the royalty provisions of the illegal patent license agreements is clear misuse of its patents."

We earnestly urge reconsideration of this action which has severely penalized U.S.G. for pleading alternate and inconsistent claims, in accordance with the Federal Rules of Civil Procedure.

We sincerely feel that such a penalty is unfair and inequitable and has no justification in a court of equity.

This brings me to the final point we assert in showing error in this continued misuse as a matter of law ruling, and that is the apparent attempt to attach a stigma of misuse to the counts other than counts one and two, on the ground that they are, as the court said, "posed on the same underlying factual situation created by the license [fol. 1857] agreements and because of the similarity of the ad damnum clause."

I am not sure that this court fully appreciates that in counts one and two we actually did not attempt to enforce the royalty provisions of the license agreement. The license agreement provided that for the use of these foam patents, the licensee must pay a one percent royalty of the selling price of all board manufactured

and sold by it, whether or not a patented board and whether or not manufactured by the use of U.S.G.'s patents.

We do not attempt to recover on that basis. We limited our suit in every suit and in every count of every suit our attempt to recover was solely for the use, actual use, of U.S.G.'s patents, and that is true with respect to our suits in count- one and two as well as three, four, five and six, and the other counts.

I remember being somewhat surprised at the last hearing when Mr. DeWitt, speaking for Newark, was so exercised because, as he said, he would go off outside the record to say that Newark actually had a process of its own and was not using U.S.G.'s patents.

Well, if that is so, right in his own backyard, we had a suit where all that he needed was to put in that defense and we were not even seeking recovery if we could not establish that he was actually using our patents during this period.

Another point of significance in this connection is the [fol. 1858] proposition of law, that where a licensor has established a royalty rate for the use of his patent, that will be the maximum that he can hope to recover either under a quantum meruit or under an infringement count. That is the yardstick for measuring reasonable compensations for use or damages for the use of the patents.

U.S.G. and these very petitioners at arm's length negotiations had established years ago, and paid on that basis, one percent as the reasonable rate for the use of these foam patents which are involved in these suits.

Following the decree of this court on May 15, 1951, National, Certain-teed, and Celotex, who are not involved in these petitions—and who is not involved in these petitions, all took advantage of that provision in the decree that they could apply for and obtain a license under any of U.S.G.'s patents. And, as a result of that application, new licenses were entered into which established this one percent as the reasonable royalty for the use of these patents, and that was notwithstanding the fact that the decree provided that if we could not agree in our arm's length negotiation on a reasonable royalty, this court was open and free for anyone to come in and establish what the reasonable royalty was.

Now, in that factual background, it was just as certain as death and taxes that the maximum that we could ever receive by way of reasonable royalty for the use of these patents was that one percent, and in view of these two facts, [fol. 1859] namely, that we were suing only for the actual use of U.S.G.'s patents, and the fact that we could only recover the one percent under whatever theory we might be successful, it was just a certainty that our ad damnum clause must of necessity come out the same in each of these counts insofar as the counts covered identical periods.

Finally, there is no basis, we submit, for the statement that the counts were all posed on the same underlying factual situation.

A careful study and reading of the counts will show conclusively that they were based on inconsistent factual situations, and certain of the counts, three, four, and five, for example, were for a period—take three, for example, where it specifically alleged that the license agreements were terminated and, therefore, we were suing for a period not covered at all and for which we could not have recovered under the license agreements.

We submit that the continued misuse as a matter of law ruling, is clearly wrong, your Honors, and that the findings and conclusions and decree of December 9, 1954, based on that ruling, are equally erroneous, and should be set aside.

Now, the second point which we raise in our motion is the question of the error in determining the purge issues in a summary fashion, as this court has done, and as I have pointed out that will be covered by Judge Bromley, and I would like to move to our third assignment of error, which is that there was manifest error in the court's ruling that the final decree of May 15, 1951, should be expanded beyond what we believe to be its basic purpose, [fol. 1860] and that new rights be created in the co-conspirator licensees in disregard of the position which the Government has taken in this case.

In support of this contention, we rely at the outset upon certain indisputable facts. Neither the petitioners nor this court can point to any provision of the final decree, other than article four, as furnishing any basis for the claim that the suits brought by U.S.G. were violative of the provisions of that decree.

None of the injunctive provisions in any way prevented U.S.G. from recovering compensation for the use of its patents and compulsory licensing provisions, which were included in the decree, assured it a reasonable compensation for any continued use of any of its patents.

Secondly, this court conceded that article four does not either expressly or by fair implication cover the counts in U.S.G.'s pending suits other than counts one and two, and that if prosecution of the counts is to be enjoined, it must be by a modification of the decree.

Furthermore, it is recognized by the court and by all the parties that any modification of the decree must be within the basic purpose of the decree as originally entered.

Notwithstanding these unquestioned propositions, this court has modified the decree of May 15, 1951 in so material a fashion as to exceed any authority which it inherently had [fol. 1861] or which it reserved to itself by article 10 of the decree or otherwise.

Now, a word about the basic purpose of this decree, which was entered, and with which we are all earnestly concerned: This litigation was brought by the Government, charging the defendants with violation of the Sherman Antitrust Law.

It resulted in an adjudication that the defendant companies had acted in concert, in violation of sections one and two of the law, to restrain trade and to monopolize the Gypsum board industry.

This adjudication which was contained in article 3 of the decree is, as this court's opinion states, the heart of the final decree.

That being so, it is obvious that the basic purpose of the decree must have been to give the Government adequate relief, to prevent agreements or understandings in the future resulting in antitrust violations, whether through license agreements or other acts or courses of action.

That is exactly what was intended to be, and was, accomplished by the provisions of article 4, injunctive provision of article 5, and the compulsory licensing provisions of article 3 of the decree.

No suggestion has been made by anyone that the provisions of the decree have in any way failed to accomplish that purpose. The Government, which is here, as the spokes-

man for the public interest and the only party plaintiff in this case, has clearly stated its position.

It takes the view that the effect of article 4 should be to [fol. 1862] bar any attempted endorsement of the old license agreements, but it expressly states that it takes no position with respect to the other contentions raised by the pleadings wherein the petitioners urge that the decree should be expanded to prohibit U.S.G. from prosecuting the quantum meruit and the infringement counts in the pending suits.

The Government, which brought this suit and alone represents the public interest, has expressly stated that it has no interest in this private squabble which has arisen. It does not ask that this court be encumbered with these extraneous issues of a purely private nature.

I have the greatest respect, and I am sure we all do, for the Department of Justice in its effort in the first place to obtain sufficient relief to carry out the basic purpose of its suits that it brings, and in the second place to be sure that the relief which it has obtained has proved to be adequate.

I have not the slightest doubt but that if the Government believed that a modification of the decree to enjoin the prosecution of the quantum meruit and the infringement counts in these pending suits was in the slightest degree necessary or proper or even appropriate to carry out the basic purpose of the decree, it would have taken an emphatic position before this court and strenuously urged that that action be taken.

But it did not. It said it has no feeling on this matter, takes no position.

[fol. 1863] But nevertheless, the court has seen fit by its action of last December 9 to modify the decree to include therein an extraneous matter which it concedes in its opinion was not dealt with at the time that the decree was entered, although both decrees heretofore entered in this case recognized the plea of these defendants, that they surely be given the right to continue to use these patents for which they said they were willing to pay; the court now injects this amendment to assure the co-conspirator licensees an additional right to avoid payment of their actual use of U.S.G.'s patents pendente lite.

We believe that the concern, the tender concern, showed for these co-conspirator licensees is unwarranted.

The court finds in findings 6 and 7 that as a result of the patents' misuse, the co-conspirator licensees have organized their manufacturing plants and conditioned their business upon the continued use of U.S.G.'s patents, and that when the Supreme Court held the license is bad the licensees were placed in an uncertain and untenable perilous position and they elected to disregard the licensees and to continue to use the patents.

From this the court finds a basis for amending the decree to enable the defendant petitioners to secure or preserve, as the court said, "the fruits and advantages of the judgment that had been entered against them."

Frankly, I am at a loss to know just what fruits and advantages a co-conspirator in an antitrust case is entitled to.

[fol. 1864] If National, Certain-teed, Newark, Ebsary, had conditioned their business upon the use of these patents, that was part and parcel of their participation in the conspiracy, and no court can equitably say that they should benefit through their transgression by having free use of those patents.

This would seem to be particularly true where the decree itself provided that they must pay for any continued use of the patents after the decree.

This court's opinion of last July seems to rely quite heavily at this point upon the Missouri-Kansas Pipe Line case reported in 312 U. S., which was referred to in the court below as the Columbia Gas and Electric case as support for the conclusion that the petitioners were given rights in the final decree affording them a status to seek amendment to the decree.

Actually, that case is quite dissimilar, for there the petitioner, the Panhandle Pipe Line, was not a co-conspirator but was a victim of the conspiracy, and the consent decree which had been entered with the concept of the Government expressly provided that if Panhandle, in the future, should feel it was necessary to intervene in order to enforce its rights which were given to it in its protection, it might do so. That, I submit, is a far cry from the situation that we are dealing with here.

A final point in this particular connection which we make is that the court's ruling violates the well-established principle that the rendition of a judgment in an action does [fol. 1865] not conclude the parties to the action who are not adversaries under the pleadings as to their rights inter se, in which there has been no joinder of issue or not opportunity for determination, and as to which they had not litigated among themselves.

There were no issues joined as between the defendant coconspirators. The court did not purport to make any adjudication of rights as between them with respect to their obligation to pay for U.S.G.'s—for the use of U.S.G.'s patents during this 1948-51 period.

And in this connection, it seems to me that the court's findings and conclusions were quite unfair in the handling of the controversy which did develop between these defendants at the time of the June 14, 1949 hearing.

All of the defendants were in accord with the proposition that this court, by its granting of the Government's motion for summary judgment, had found a law adjudication on a very narrow issue.

Up to the time of the argument, all of them appeared to be in agreement by the papers which they had filed, with the proposition that article 4 should only strike the price-fixing provisions out of the licenses rather than to strike down the license agreements in their entirety.

At the June 14, 1949 hearing, the defendant licensees for the first time advanced the proposition that article 4 should strike down the license agreements in their entirety and not simply strike out the minimum price provisions.

[fol. 1866] Judge Worley: What was that date?

Mr. Spray: Sir?

Judge Worley: What was that date?

Mr. Spray: That was June 14, 1949 when we were before this court in considering the terms of the decree and whether or not findings of fact should be made.

In support of this request, the defendant licensees assigned specific reasons why they wanted this article 4 stated just that way, and in none of those reasons, although they specified them, in none of them did they suggest to the court that what they were wanting was to use that as

a basis for avoiding payment for their current use of U.S.G.'s patents.

One of the attorney's representing Celotex, and, as this court stated in its opinion, obviously also representing Certain-teed in this statement, assured the court that that was not the reason, that they had no idea or thought of trying to prevent payment for the use of the patents, and while the others, the court, did not find that this gentleman was speaking for the others the fact of the matter is that he is the one who was presenting this form of decree, this particular clause, and the others sat there and did not in any way dissent from his statement, but rather specifically stated their reasons and omitted any suggestion that it was in order to avoid payment of these—for the use of the patents.

Now, U.S.G. continued to urge, as it had in the past, urge [fol. 1867] at that hearing that only the minimum price provision should be stricken and not the licenses in their entirety, and in that argument, and in the memorandum which was filed subsequently, it suggested and stated that the only reason the defendants could have for wanting that to read as they suggested was to try to avoid an accounting to U.S.G. for the use they were making of its patents.

The court, in its finding, magnifies this statement to a point, I respectfully submit, all out of proportion to the place which it has in this course of events, and completely ignores the statements of the defendant licensees which negates the idea that they were seeking this particular wording of article 4 in order to avoid their obligations to pay for their use of U.S.G.'s patents pendente lite.

We respectfully urge that if our motion be granted, these findings with which I have—on which I have just commented, should be revised to treat, I submit, a little more fairly the position which we feel all the parties had in that particular negotiation.

Now, the Hartford Empire case has been a point of controversy since the filing of the defendant petitioners' original brief, and much has been said about it.

In that first brief filed by the petitioners, it was contended that Hartford Empire was the guiding star which should be controlling in this court's determination of the petitions for

[fol. 1868] an enlargement of the decree to enjoin U.S.G. from suing for the use of its patents pendente lite.

In our original brief, we distinguished the Hartford Empire case on a number of points, not the least of which was that in that case there had been a full hearing, and an ajudication of a very sweeping Sherman Act violation, whereas in our case the decision of law was a narrow one, and based upon the assumption of the truth of the defendants' proffered proof.

Further arguments were made by the defendant petitioners in their reply briefs in an effort to show the similarity between Hartford Empire and this case.

The court then came down with its opinion last July in which it reviewed Hartford Empire in some detail and concluded that in that case the Supreme Court had made a distinction between a suit for infringement and a suit on quantum meruit for use of patents, and said that the teaching of Hartford Empire required this court to conclude that prosecution of the infringement count should be enjoined by this court but that there was no reason why U.S.G. should not proceed with a quantum meruit count claim unless U.S.G. was continuing to misuse U.S.G.'s patents.

In our points and authorities which we have filed in support of this motion for new trial and in the defendant petitioners' statement in opposition to our motion, Hartford Empire comes in again for further treatment, and as I read the conflicting statements in the two briefs, it would seem to [fol. 1869] me that both the petitioners, as well as U.S.G. are in accord on the contention that the court erroneously construed Hartford Empire in drawing their distinction between quantum meruit and infringement.

But the significant development, I submit, in the review and counter-review of this decision would seem to be the fact that there was an ultimate settlement made in the Hartford case between Hartford and its respective licensees, whereby the receiver paid the licensee, each licensee, who executed a covenant not to sue Hartford for anything that happened before the date of the decree a sum equal to 60 percent of the royalties which that licensee had paid into the court receiver and was to pay over to Hart-

ford Empire 40 percent of that amount that had been paid in by each of these licensees pending the litigation.

This settlement resulted in Hartford Empire's receiving a total of over $7,267,000 from its licensees during this pendente lite period.

This recovery was for the furnishing of services, for the rental of machines, and for the use of patents under the illegal license agreements during this same period in which this court has seen fit to enjoin U.S.G. from seeking a reasonable compensation for the actual use of its patents by its —by the co-conspirators.

In their statement in opposition the petitioners seek to overcome the significance of this effect by stating that the court in Hartford Empire was dealing with a special situa-
[fol. 1870] tion, a special problem of handling earmarked royalties which had been collected from the various licensees by the court receiver.

If the court in Hartford Empire had so desired, it could easily have given the licensee a free ride by merely ordering the receiver to return to each licensee the earmarked royalties that he had paid, just as Mr. Justice Rutledge in his dissenting opinion suggested it ought to be done.

The court, however, did not so choose to confiscate the patentee's property to the special benefit of its co-conspirators, but rather approved the Hartford Empire settlement which resulted in the patentee receiving this substantial compensation for the use of its patents pendente lite.

The petitioners are likewise unjustified in their reliance on the language in the first Supreme Court decision in Hartford Empire, that in view of the nature of the conspiracy, further prosecution of suits for infringement pending at the date the antitrust action was brought should be enjoined.

The nature of the conspiracy developed in that case was that there was a plan to bring everyone in the industry into the conspiracy, either voluntarily or involuntarily by harrassing law suits.

These suits of that type are in no way comparable to the U.S.G.'s efforts to collect compensation for the actual use of U.S.G.'s patents.

Rather, the defendant petitioners' position in this case
[fol. 1871] is like that of the Hartford co-defendants who

were compelled to pay for their use of the patents during this same period.

In this connection, it is interesting to bear in mind that the Hartford final decree, in enjoining the corporate defendants from seeking recovery for infringement for prior use of the patents, the decree expressly excepted from that injunctive provision any such recovery, and I am quoting, "against any other corporate defendant."

Nor can the defendant petitioners avoid the significant fact that although the court in Hartford included an injunctive provision against infringement suits, except as against corporate co-defendants, the court in this case did not include any such injunction against U.S.G., either in its decree of November 7, 1949, or in its decree of May 15, 1951.

The petitioners' reference to the period in which Hartford collected royalties from its co-conspirators as being that period between the initial and final decree only serves to spotlight a manifest error in this case, in the failure of the court to give full significance and effect to the court's initial decree of November 7, 1949.

After all is said and done, it would seem that possibly the most distinguishing feature between Hartford Empire and this case in the present state of the record is that Hartford Empire was permitted to receive over $7,000,000 compensation for its services, machines and patents during this period of the trial under the licenses which were declared [fol. 1872] to be illegal, certainly in that case, whereas in the comparable period in Gypsum this court has, by its decree of December 9, 1954, ruled that U.S.G. should be deprived of any compensation whatsoever for the actual use which its co-conspirators have made of its patents during that period.

In the final analysis, Hartford Empire, far from supporting the petitioners' position and plea for an expansion of the decree of May 15, 1951 to enable them to avoid payment for the use of U.S.G.'s patents, actually demonstrates the inequity and impropriety of the action which this court has taken. There is nothing in the record which would suggest any sound, proper basis for the proposition that U.S.G. should not be given at least as fair treatment as Hartford Empire with respect to the use of their respective patents pendente lite.

The balance of our argument, if the court please, the argument on direct, will be handled by Judge Bromley.

Judge Stone: Judge Bromley.

ARGUMENT ON BEHALF OF UNITED STATES GYPSUM COMPANY

By Bruce Bromley, Esq.

Mr. Bromley: May it please the court, my name is Bruce Bromley. I hope to continue the very excellent presentation thus far made by my brother Spray on behalf of the U. S. Gypsum Company.

Our Anglo-Saxon jurisprudence has always abhorred any forfeiture of private property. Our state and Federal Constitutions all, I think, seek to preserve private property [fol. 1873] against deprivation without due process, meaning, in part, at least, without just and adequate compensation. These principles have been guides in the restraint of trade or antitrust field. And especially have they been guides for the Supreme Court in setting standards for the formulation of relief against violations of the criminal statutes found in sections one and two of the Sherman Act.

For instance, in those rare cases, monopoly cases in part where divestiture of assets or stock has been ordered to remedy a restraint of trade, that divestiture has always been conditioned on the receipt of just compensation for the property transferred by the violator. That same principle is applied where monopolies had purchased or acquired patents, have been ordered disposed of, always on condition that the violator shall be entitled to receive adequate compensation for the property which he was thus ordered to sell.

And finally, so likewise, where compulsory licensing of patents has been ordered, it has been on the condition that the compulsion is effective only if the party ordered to grant licenses receives a reasonable royalty therefor. The Supreme Court has never imposed compulsory licensing of patents without the requirement that that license be paid for at reasonable rates.

To put it another way, the Supreme Court has never imposed royalty-free licensing of a compulsory nature.

Now to me, these principles were the background rules which governed the Supreme Court in its handling of Hart-

ford Empire, and I look at Hartford Empire in a slightly different light from the way in which Mr. Spray has [fol. 1874] presented it to you. I like to emphasize that in that case before Judge Kloeb, after a full trial the District Court held that Hartford Empire had used patent licenses coupled with a leasing system of its patented glass-making machinery in violation of the antitrust laws, and the District Court ordered all such license agreements which he said were void and illegal to be cancelled, and he ordered the abolishment of the entire system of patent licenses and machines and service agreements and leases.

Now, when he came to frame the relief, having found that broad antitrust violation, he ordered Hartford Empire compulsorily to license all these patents royalty-free. He imposed a drastic sanction indeed, and he ordered for the future Hartford Empire must license its patents for nothing to anybody who wanted them. And I think that is a very important factor to keep in mind when we consider what happened thereafter.

As a part of the relief in the original Hartford Empire decree which came down in 1942, Judge Kloeb very wisely, I think, appointed a receiver for Hartford Empire and he instructed him to make sure that while the appeal processes were being followed, Hartford Empire did not further violate the law, and at the same time to see that the company was not ruined by being taken advantage of unfairly by its licensees, and he specifically ordered the receiver to collect, to continue to collect, all patent royalties and service fees if he could, and to deposit them in a special account, and [fol. 1875] by paragraph 15 of Judge Kloeb's decree, he specifically provided that if his determination was affirmed in the Supreme Court, with respect to this royalty-free licensing, that then the royalties which the receiver had collected were to be returned to the licensees; that is to say, Judge Kloeb said, as punishment for this violation, Hartford Empire, "you must give free use of your patents for the future, and also for this interim pendente lite period between the date of my decree in '42 and the date when the Supreme Court will have acted," and the Supreme Court finally came to act and a final decree was entered in 1945, so in that suit we are considering a three-year pend-

ente lite period just as we are here in our pendente lite period from 1948 in our case to 1951.

Now, when that decision got to the Supreme Court, the Supreme Court, among other things, reversed Judge Kloeb's finding as to compulsory royalty-free licensing.

We participated in that case and it was a decision of the greatest importance and so treated by all counsel, because we saw there, on behalf of American business, a very serious invasion of private property rights.

We felt it was a forfeiture of private property in violation of all of our fundamental thinking and our constitutional principles, and we argued with great, great earnestness that the Supreme Court should not sanction this compulsory royalty-free licensing, and the court found with us, and reversed Judge Kloeb, and said that the compulsory [fol. 1876] licensing, of course, be accompanied by the right of Hartford Empire and the obligation of its licensees to pay reasonable royalties for the use of those patents even though they had been grossly misused.

And the Supreme Court ordered that the royalties collected by the receiver for the interim period should be paid to Hartford.

The Government being dissatisfied with that determination and the able young partner of Judge Rosenman, Mr. Seymour Lewis, was acting for the Government in those days and, if I misstate anything, I am sure he can tell Judge Rosenman who can call it to your attention, the Government being dissatisfied with that applied for rehearing, and rehearing was granted, and the court specifically considered this point about compelling the licensees for the pendente lite period to pay royalties as well as for the future, and upon that reconsideration, it made the following direction: It said, "That unless Hartford has been guilty of some added violation of the antitrust laws since the 1942 decree, the licensees must elect whether to remain licensees at a reasonable rental for the future or to repudiate the licenses and litigate against Hartford whether or not in the precise circumstances Hartford was entitled to get any compensation for the pendente lite period."

Now, the matter came back to Judge Kloeb and he entered a decree on October 31, 1945, after this Supreme Court direction, and by paragraphs 10, 11 (a), and 11 (f) of

[fol. 1877] that decree, he provided an order that Hartford Empire, no violation having been shown after October, 1942, was entitled to royalties from October, 1942, the date of his first decree to October 31, 1945, the date of his final decree.

Now, why was it that Hartford only got 40 percent of those royalties as Mr. Spray told you?

It was for this reason: Most of these licensees were not co-defendants as we have here, and they thought they had, and probably had, good treble damage claims against Hartford Empire, so the receiver and the court worked out a settlement whereby the licensees released Hartford Empire from the licensees' claims for treble damages, and that is why they got the 60 percent back, and the receiver paid 40 percent remaining as royalties, for the pendente lite period, to Hartford Empire, and that 40 percent amounted to the figure of $7,267,000 which Mr. Spray mentioned.

And finally, as Mr. Spray pointed out to your Honors, the final decree not only gave Hartford Empire royalty compensation for this interim pendente lite period, but provided that it should have the right to bring infringement suits against co-defendants for that same pre-final decree period.

So that I say that case, as exemplified in the Supreme Court determination itself, shows the application of that case to this case and shows that despite the determination of illegality made against the Hartford licenses, and despite the determination of illegality made against our licenses, [fol. 1878] that we are entitled to compensation for that pendente lite period unless somebody comes forward and shows that during that period we violated the antitrust laws.

Now, even Judge Rosenman concedes, or did upon the occasion of the last argument, that the final decree in this case of May 15, 1951, accomplished a complete purge, for he said that as I read him on page 41 of his oral argument, and I think that is clearly right.

Certainly no one could contend, I think, that that decree did not certainly accomplish a final and complete purge. I think the purge occurred much before that, but I want to call to your attention what your decision has done with regard to that point.

Judge Stone: Judge Bromley, may I interrupt you. Would it be agreeable for you for the court to take a recess of about ten minutes, now, not breaking into your argument too much?

Mr. Bromley: No, sir. It is all right, sir.

Judge Stone: The court will recess for ten minutes.

(A short recess was taken.)

[fol. 1879] Judge Stone: You may proceed, Judge Bromley.

Mr. Bromley: May it please the Court, having in mind that it is probably clear that a complete purge occurred at least by May 15, 1951, let us look at the situation of Ebsary and Newark under this court's decision.

They did not see fit to take a compulsory reasonable royalty license from us under that decree, as did National and Certain-Teed, and according to our information, Ebsary and Newark have nevertheless continued to use our patents right down to the present time.

Your Honors have seen fit to enjoin us from seeking any recovery even after May 15, 1951. Since your determination is that the mere bringing of a suit to collect money for the use, even after the complete purge accomplished by the final decree, since your determination is that the mere bringing of a suit evidences or is a continued misuse of our patents, so that as we have stood for some time, if National and Certain-Teed, which took these compulsory reasonable royalty licenses should suddenly stop paying us, I guess we could sue them under those new licenses and recover the reasonable royalty, but this court has said that Ebsary and Newark, who are going ahead according to our contention and making the same use of the patents, are absolutely insulated, and there is nothing we can do about it, because having been smart enough not to take a compulsory license, they can go ahead from now until [fol. 1880] the end of time or the end of the patents, and use our patents and we cannot sue them because we have done so, and your Honors have, by modification of the decree enjoined those suits against those two people.

Now this merely emphasizes, to my way of thinking, your Honors, that the mere bringing of a suit as Mr. Spray

said, for money, cannot be a misuse and cannot be evidence of a misuse. The question always is what was the actual misuse of the patents and when did it occur and when did it end.

Now so far as the trial on the merits is concerned before this court, it is perfectly clear that the only period of misuse that was established in any fashion was a period from about 1926 to no later than 1941, because there was not any condition, or acts that were litigated subsequent to the end of the period in 1941. So that the only misuse then, I say, ever adjudicated by anybody in this controversy cannot possibly be for any period other than 1926 to 1941.

Now if we were given an opportunity, as we should be, if we could go ahead with these infringement and quantum meruit suits against these defendents, we would want to prove purge by showing what happened in 1941, in 1942, and three and four and five and six and so on. We would want to show how competitive conditions in the industry changed after 1941. We have gone through a war since the end of that period, we have had governmental price fixing during a part of that war.

[fol. 1881] There has been intense competition in the industry. We could, I think, successfully show, if ever given the opportunity, and I don't believe one could ever produce evidence of anything that we had done after 1941 that could possibly be said to constitute any misuse of our patents, and certainly, there could be no evidence produced that after March, 1948, which is the beginning of this pendente lite period, from March, '48 to May, '51, certainly no one could say that after March, 1948, when the first Supreme Court decision came down, that we ever thereafter misused our patents, which we had not been misusing for seven years prior to that time.

And I say, if we ever get the opportunity to prove a purge as a matter of fact, which these infringement suits would afford us, that is the kind of proof we would want to bring forward in support of our defense that all unlawful, improper results flowing from our 1926-1941 adjudicated misuse, had long since dissipated prior to March, 1948, and no misuse of any kind existed in the pendente lite period from March, '48 to May, '51 in suits against two of

these defendants, and, of course, did not exist as against the other two from March, 1948 down to the present time—down to the beginning of the suits against those two who did not take the compulsory license from us under the '51 decree.

So I respectfully submit to your Honors that the second basic error in the opinion and determination of the [fol. 1882] court as we see it, lies in your Honors' determination that our earlier misuse of our patents as a matter of law has not been purged.

Now that error, I think, is two-fold in nature: First, it has denied us the right to be heard on the purge issues, which I think all courts agree are generally and primarily and almost invariably matters of fact; and secondly, I respectfully submit that our purge contentions have been misconstrued.

If I am right that purge is factual, then it is impossible to say accurately now that as a matter of law we have not purged our misuse.

There are numerous cases in which efforts have been made to get summary judgment and they have been denied always, I think, because the courts have correctly determined that they cannot be determined as matters of law, but must be decided as matters of fact.

That was the effect of the Park-In Theatre decision in Delaware to which Mr. Spray referred and which is discussed in our brief. There are other cases in our brief of September, 1953, to the same effect. One of them, in Massachusetts in the Federal Court, I venture to read just this sentence. The court said, "Whether such a satisfactory purge has taken place is, of course, largely a question of fact. There is a question then which must be determined at a trial on the merits and plaintiff is entitled to the opportunity to demonstrate to the court that such leases have been abandoned and that a satisfactory purge has been effected."

[fol. 1883] Now, in saying again that the critical period here is March, '48 to May, '51 and remembering that the evidence in the case was closed in April, 1954 and that no evidence has been accepted with respect to anything that happened after 1941, I say that it is impossible to contend that as a matter of law, we have not and cannot show purge—

the evidence closed in April, 1944, thank you, I mispoke myself.

Judge Cole: What is the title of the Massachusetts case?

Mr. Bromley: That Massachusetts case, sir, is Hoag Sprague Corporation, versus Bird and Son, 91 Federal Supplement 159, decided in 1950. It is in our September, 1953 brief at about Page 132, between 131 and 134—132.

Judge Stone: That is not in your brief on this motion.

Mr. Bromley: No, that is the original brief, the original brief of September 1953, yes.

The only thing in the nature of evidence which has been received in this case since 1941 that concerns itself with events since 1941 is our offer of proof, which was filed in June, 1948, the early part of the critical pendente lite period here in suit.

If that proferred proof had been taken as true, which the court did, I am quite clear, in nevertheless sustaining the Government's motion for summary judgment, then that offer of proof is the first evidence of purge and certainly cannot be said to furnish any additional evidence of misuse [fol. 1884] or continued misuse during the post-1941 period. It supports our claim of purge to the very fullest extent, and having been accepted as true, shows that we not only abandoned all price-fixing, but that we did not do any of the other things which the final decree has enjoined us in this theory of expanded relief being justified, nevertheless, even though the claimed violation was a narrow one.

And finally, the petitions here, and our answers to the petitions which were filed in this court in 1953, themselves raise material issues of fact with relation to our contention of purge, and of course no evidence has been taken with respect to those issues and we therefore earnestly urge that it is unfair and inequitable and an error of law to deprive us of our day in court by undertaking to determine the purge issue a factual determination against us, without a consideration of all of the pertinent evidence.

Now when we proceeded to argue this purge matter originally, and to consider the various legal questions which we thought were involved, we were careful not to waive our right to introduce evidence on these factual issues which have been joined herein, and in presenting the legal points as we did, we contended that there were facts already of rec-

ord in the case which might very well constitute evidence of purge at a time prior to May 15, 1951 and they might be sufficient not only to preclude a conclusion against us, as a matter of law, but even to resolve the purge issues in [fol. 1885] our favor. And we discussed then five, let me say, such facts in brief and argument, making always the express reservation that they were only illustrative, and were not the only or the exclusive facts of purge which could be shown.

The purpose of this reservations was to make it clear that reference was made only to matters of record and not to other matters of fact raised by the 1953 petitions and our answers.

We did not submit or intend to submit those five points as the only evidence which could or would be offered on an actual trial of that particular issue. Whether or not it would even be before the court was conditioned upon this court's decision with respect to its jurisdiction to hear the matters raised by the 1953 petitions.

But we submit that the court's treatment of these five points as the only evidence of purge, has brought about an inequitable result: First, what has heretofore been said by Mr. Spray about this court's decree of November 7, 1949, will show the error arising I believe from the court's treatment of that subject. Actually, this claim of purge, I suggest, is missed entirely in this court's discussion of it and is also missed in the finding made with respect to it, because it was our contention that as a matter of law, that decree in itself effected a purge of any misuse of patents because in that decree of November 9, 1949, there was an ad- [fol. 1886] judication that the old licenses were illegal, null and void, and there was an express injunction against their performance or enforcement, and this court itself in conclusion number 7, found that Article 4 of the November 7, 1949 decree, nullified completely, and I am quoting: "The license agreements referred to in that decree."

What we were saying in this connection was that it was the effect of that decree away back in November, 1949, and not the incidental fact that we had decided not to appeal from it, that was relied upon by us for a claim as a matter of law, that there was a purge as of at least November 7, 1949, because if the very same law decree of May 19, 1951

is admitted by these defendents, as I think they must admit, to constitute a complete purge, why does not the same result follow from the almost equally effective decree of November 7, 1949.

The law, I think, is reasonably clear that generally speaking, the entry of a decree of the court constitute- an effective purge in the absence of the showing of other circumstances negating that inference.

Rather than to actually meet this contention of ours, I submit to your Honors respectfully, that your opinion discusses only the supposed point that we claim purge because we had decided not to appeal from that decree. That argument was only made in answer to the claim in Certain-Teed's [fol. 1887] brief that the November 7, 1949 decree did not constitute a purge because we did appeal from it.

We submit that to be consistent with the court's recognition of that decree of November 7, 1949, as an effective nullification of the old license agreements, this court could find and should have found that there was a purge of any prior patent misuse at least by November 7, 1949.

And this is particularly true because not even up to the present day has anyone suggested that that decree was violated by us, in the slightest degree or to any extent whatsoever.

Now secondly, we also feel that there was error in the court's treatment of our repeated offers to these defendents of licenses in 1949, prior and contemporaneous with the decree of November, 1949, and we submit earnestly that the licenses which we thus offered them in 1949 were untainted by any improper provisions so far as any patent misuse is concerned.

The forms of licenses which we submitted to these licensees, these co-defendants, in early 1949, and which were offered in open court and filed with the court by June 14, 1949 at that hearing, and which were again filed with the court the next month in July, 1949, in slightly revised form, were all substantially the same as those which this court approved specifically in its November 7, 1949 decree.

There was little material difference from the form of the 1949 approved license and the form of license approved by [fol. 1888] the 1951 decree. What I mean to say is this: Those forms we submitted in 1949 were substantially the

same as the ones which were finally approved in '51, so that I say that we have a consistent record, starting before the November, 1949 decree and way back at the beginning of the year 1949, and running through the summer, and at the decree of November, 1949, and then again at the end of the final decree in 1951, of repeated offers of licenses all in substantially the same form.

Now what was the difference, if any, between the '49 licenses which I have been talking about and the ones that were approved in 1951 and which Certain-Teed and National actually took, but which Ebsary and Newark refused to take. The only point of difference, I think, between those two sets, the only points of difference were as follows: In the 1949 licenses, it was provided that the verification of the accuracy of the licensees' royalty reports which, of course, all license forms require, was to be made by an independent auditor or a person acceptable to both parties who should report only the amount of royalty due.

In the 1949 licenses, we provided that the licensees should make a full report to us of how many feet they sold, and what their prices were, and the court and I think properly so, provided that that information did not need to be disclosed to us and should not be disclosed to us, and if we [fol. 1889] could agree upon an independent auditor, he could make all necessary examinations and satisfy himself as to those facts, but it ought to fully satisfy us if he certified the ultimate amount due without the business details behind that amount of royalty that he thus determined.

Now in that respect, the '51 license was modified from the 1949, and that also meant that the licensee did not have to report his intimate information about the kinds of board that he made and the thickness and the size and the price.

I believe, however, those were the only differences between the 1949 and 1951 licenses, and I cannot see that those differences have any impact on the effectiveness of the dissipation of the patent misuse which is inherent in the offer of unobjectionable licenses.

We contend in this connection that the refusal of all of these four defendants, National, Certain-Teed, Newark and Ebsary to accept those licenses thus offered to them in

1949, should not now operate to deprive us of the purging effect which is inherent in the '49 offer to all of them.

In denying our claim of purge, this court states that the Supreme Court had found that the definition of Gypsum board and the time limit for applying for the new licenses was too restrictive in the November 7, 1949 decree. But that again, I submit, has nothing whatever to do with the purging effect of our offers to grant these people licenses, which, by their terms, gave these defendents the right to use all of our patents, upon terms and conditions [fol. 1890] wholly unobjectionable so far as the antitrust laws were concerned. Nor is there any merit finally in your Honors' observations that the decree which we submitted provided that the old license agreement should be cancelled upon the entry of the decree. That was a provision that was in the decree filed by the Government, and in the forms of decrees filed or adopted by the licensees and was merely an appropriate way to take formal action to wipe out the last vestige of the old license agreements.

Now our third point of purge involved what we contended was an abandonment of the old license agreements by all the parties following the first Supreme Court opinion in March, 1948. The petitions here of 1953 and our answers to them, which we filed here in '53, all joined issues of fact as to this point of abandonment, and I don't believe that point can possibly be disposed of without the taking of evidence.

We averred that it was understood by all of us, that the old license agreements should be abandoned. Similar factual issues are joined in our infringement suits in count 3 of those suits against these defendants, and the answers to the count 3 allegations of abandonment, in the Iowa suits against National and Certain-Teed, raise and create factual issues with respect to that contention, and I think the court erred in determining that question against us, without the taking of any evidence with respect to those allegations.

[fol. 1891] I think we are entitled to our day in court on that important issue as well as others, and it certainly should not be determined on counsel's mere statement here that the first Supreme Court opinion came as an unexpected shock to the industry and every one stopped in their tracks

and took no further action under the licenses, that they were just in status quo.

Nor could that factual issue be disposed of as the court appears to do in its opinion by saying that in the 1949 licenses, various parties were suggesting that the old license agreements be formally and finally disposed of by a provision in the decree for their formal cancellation.

Now fourthly, I think the court erred in rejecting our contention that if the November 7, 1949 decree did not accomplish a complete purge, then the May 29, 1950 Supreme Court injunctive order accomplished a complete purge.

The fact of the matter is that by this injunction, by the Supreme Court, it was intended to, and did, operate as an effective bar to all further misuse of our patents pendente lite, and unless it was violated, it was clearly evidence of purge—no one says it was violated, at any time. It really stands, to my way of thinking, on no different basis from the decree of 1949 or the decree of 1951. We have three decrees, one of them a Supreme Court decree, all [fol. 1892] enjoining us against complete misuse of our patents, the one in November, 1949, one in May, 1950 and the final one in May, 1951.

Now, fifthly, although this court concludes that the licenses had not been used for price fixing since 1941, it reject- that as evidence of purge because it says we retained the right to fix prices in the agreements nevertheless, and that we had that right at all times subsequent to 1941.

I cannot see the effect upon the question of purge of that unexercised right and nobody says we ever exercised it, directly or indirectly or made any attempt ever to do so, and that we had not sought to exercise it for a period of seven or eight years before the pendente lite period here in suit, and we, of course, did not attempt to exercise that right to fix prices at any time during the pendente lite period from March, 1948 to May, 1951.

Finally, we submit that the court's rejection of the purge facts of record is further erroneous in that it ignores their cumulative effect. This court has permitted these co-conspirators free use of our patents for a three year period, notwithstanding the fact that we have an eight or ten year period of non-use of any price fixing provisions, notwith-

standing the fact that we allege that the licenses, the old licenses were expressly abandoned by the parties, notwithstanding that we have repeatedly offered legally unobjectionable licenses to these people, and notwithstanding that [fol. 1893] we have been effectively enjoined during the major part of that period by court order, which no one says we ever violated.

Assuming for the sake of argument that these facts do not establish purge as a matter of law, as the court concludes, they are certainly sufficient when taken with the other facts put in issue by the 1953 petitions and answers, to prevent a summary judgment of non-purge which is just what this court's ruling amounts to. And in that respect, I believe it to be erroneous.

Now if we are correct in our contention that the continuing misuse ruling and the ruling without the taking of evidence that we have not purged our patent misuse, are wrong, then it follows, I believe, in so far as the findings, and conclusions and decree which were entered last December 9th are concerned, that they are wrong and should be set aside.

The automatic effect of such action would be to re-establish U.S.G.'s right to proceed on count 4 of the pending suits against these defendants. Count 4, it will be recalled, is the one which seeks a quantum meruit recovery, for this court, in its opinion, has held that count 4, and I quote: "is proper and prosecution thereof should not be enjoined unless U.S.G. is barred by unpurged misuse of its patents."

So that I say, if the continued misuse ruling should turn out to be wrong and the purge ruling should turn out to be wrong, then under the court's decision, our right to proceed [fol. 1894] on count 4 for a quantum meruit automatically re-establishes itself. But further and beyond that, such a ruling as to misuse and purge would also have the effect of automatically re-establishing count 3 of the respective suits, and the theory of that count, as we have repeatedly stated here, is, namely, that it sought a quantum meruit recovery for the actual use of our patents under circumstances from which the law would imply an agreement to pay.

In this connection, it should be borne in mind, I submit, that we contend that the court has erroneously ruled that

count 3 in the pending suits is an action based on an express contract designed to recover indirectly the royalties provided for in the illegal license agreements.

On the basis of that finding, this court concludes that count 3 is but a suit upon an express contract which should be enjoined as a left-handed way of recovering under the old license agreements.

In this finding and conclusion, the court overlooks the fact, I respectfully submit, that count 3 expressly avers the rescision of the old license agreements, and seeks recovery for the use of the patents after such rescision and therefore for a period not covered in any way by the old license agreements.

Similarly, we have shown, I submit, that the court has misunderstood and misconstrued the ruling of the Supreme [fol. 1895] Court in the Hartford Empire case in deciding that it was a specific precedent, indeed, here a controlling guide for holding that there could be no recovery for infringement of U.S.G.'s patents pendente lite.

Since the determination that U.S.G. should be enjoined from prosecuting its infringement suits is based upon this erroneous conception, it is likewise unsupportable that in so far as the findings, conclusions and decree of last December 9 are based upon it, they should be set aside.

No reason has been suggested that I am aware of why U.S.G. should be denied any compensation for the use of its patents pending the litigation, whereas Hartford should be permitted to recover a large part of $7 million from its co-conspirator licensees for their operations under the condemned licenses during a corresponding period.

Now, in conclusion, I should like to say a word about jurisdiction: We urge very earnestly that this court is without jurisdiction to encumber this public action with an adjudication of purely private controversy between co-defendants.

This injunction suit, brought by the United States, as Mr. Spray has said, is to protect the public interest. It is not a private action. The decree which was entered was intended to protect and did protect the public interest against further antitrust violations. No suggestion has been made by anyone that it did not fully accomplish that purpose. Yet [fol. 1896] the court has been persuaded to amend the de-

cree, not for the protection of the public, I submit, but solely to adjudicate issues of a private, selfish nature.

The underlying principle in public suits of course, as we all know, differs from those of private suits. Private parties should not be able to encumber a public suit with private issues any more than a private suit should in any way foreclose the Government from its right to an injunction in the subsequently brought public action.

This was held, I think, during the past year, by the Supreme Court in the Borden case, where it was held that the fact that an injunction had been entered in a private suit, could not in any way foreclose the Government from seeking an injunction in the public interest.

It is conceded by this court in its opinion and in its conclusion number 7, that the matter of our right to compensation for use of our patents on a quantum meruit or infringement theory was not expressly or implicitly covered by the final decree of May 15, 1951.

There can be no question but that there was no issue joined as between the co-conspirator defendants on which such an adjudication could have been made in the final decree. Therefore, we think that clearly the court has moved outside of the basic purpose of the decree by its amendment of last December 9th.

[fol. 1897] This, I submit, respectfully, even by the standard accepted by the majority opinion, is beyond this court's jurisdiction. Certainly, it can not be justified under article 10 as a move to construe, carry out or enforce the decree. Nor is it, I submit, within the inherent power of this court, to enforce its decree since that power is confined to effectuating the basic purpose of the decree.

Congress has designated the Attorney General as the protector of the public, the Department has been vigorous, as Mr. Spray has said. It now comes here after full consideration of the matter and states that it takes no position as to whether the decree in any way serves to bar our quantum meruit or infringement claims, and it takes no position one way or the other as to whether these claims should be enjoined.

As Judge Cole stated in his minority opinion, this position, and I quote, "by inference, at least, suggests that it is

beyond the scope of the decree handed down in these proceedings."

There can be little doubt that the defendent petitioners in this case are not acting in the public interest or with that primarily in mind. They are motivated by private interests in that they are trying to avoid payment of compensation for the actual use which they have made of our product, and we submit that in thus ignoring the position of the public interest in the suit brought by the Attorney General and [fol. 1898] in so permitting the decree to be turned to the private benefit of these defendant petitioners, jurisdiction has been exceeded.

I do not believe the Terminal Railroad case, cited in the opinion, supports that assumption of jurisdiction. On the contrary, I think it requires an opposite conclusion, for it was there expressly held that a decree will not be expanded by implication or intendment beyond the meaning of its terms when read in the light of the issues and the purpose for which the suit was brought.

And likewise, as Mr. Spray has pointed out, the Missouri-Kansas Pipeline or the Columbia Gas case, is apparently an authority relied upon by the majority in assuming jurisdiction. That case, however, has been pushed beyond its jurisdiction for there Panhandle was not a co-conspirator, but was rather a victim and had express authority under the consent decree to intervene if it deemed it necessary to secure preservation of its protection which the decree provided.

And this is certainly a far cry for what has been permitted in this case, and we respectfully submit that on the matter of jurisdiction, the position of Judge Cole is correct, and should be adhered to.

Judge Stone: For the information of counsel for the United States Gypsum Company, you have consumed about two hours and twenty minutes.

Gentlemen, who represents the opposition; Judge Rosenman?

[fol. 1899] ARGUMENT ON BEHALF OF NATIONAL GYPSUM COMPANY

By Mr. Rosenman:

Mr. Rosenman: My name, if your Honors please, is Samuel I. Rosenman. I speak for the National Gypsum Company, one of the petitioners, and I shall, by consent of counsel for the other petitioners, present the major argument. Each of them, however, being represented by separate counsel desires to make a separate argument through their own counsel, through its own counsel.

Fifteen months ago, your Honors and the counsel here sat in this Court Room and listened to the arguments as to why the petitions filed herein should not be granted. Your Honors carefully considered those arguments for a period exceeding six months.

Thereafter, your Honors wrote exhaustive, complete opinions on all of the points raised by the petitioners and by the respondents. That opinion, Sirs, is here for re-argument. We had expected that in the briefs filed by the U. S. Gypsum Company or in the arguments here presented, something new would be presented to your Honors which might induce your Honors to change your minds.

As we read the briefs of U.S. Gypsum, as we listened to its oral arguments, we are convinced that with the exception, perhaps, of at most two points, nothing new has been presented to your Honors; the same arguments which were made fifteen months ago are repeated.

Fifteen months ago U.S. Gypsum said your Honors could [fol. 1900] not grant these petitions and now they say your Honors were in error in granting the petitions.

With the exception of two points, which do nothing to the essence or basic ruling of your Honors' opinion, as I shall endeavor to demonstrate, nothing new has been added here to what was said fifteen months ago, and to my astonishment, Sirs, not only has nothing new been added here to what was said fifteen months ago, but comparatively nothing new is added here to what was urged before the District Court in 1949, six years ago.

Fundamentally, the basis of the argument here presented still is, as it was fifteen months ago and as it was six years ago, that the illegality here consists of the price-fixing pro-

visions of the license agreements, and since 1949, the decree declared them null and void, there was a complete purge, that there was no misuse after 1949, because everything was cleared up in 1949.

There is here the repetition of what was urged upon this District Court in 1949, "that the only thing of which we have been guilty is to follow the General Electric case, and we woke up one day to find that the General Electric case had been changed. And we are now being penalized because the law was changed on us."

Now your Honors have stated in careful, succinct language, which could not be improved upon, what the misuse was here, and what the illegality was here. It was not the [fol. 1901] General Electric case, it was not the price fixing provisions of a license agreement, it was an effort, not only an effort, but a successful effort, on the part of U.S. Gypsum to monopolize and regulate this entire industry, not only by the license agreements, but by a series of things by which they regimented, monopolized and restrained this entire industry.

And you do it in your Finding No. 5, and I don't think it can be done better or more forcefully. What you said was: "that the Supreme Court determined," "the Supreme Court determined, that U.S.G. had misused its patents to create various unlawful restraints effecting monopolization of the entire gypsum industry. This misuse extended to price regulation, to suppression of related or similar unpatented products, and to the regulation of methods and agencies of distribution. The effective instrumentalities used by U.S.G. were patent license agreements containing various restrictive provisions. Such agreements covered (a) control of prices of patented gypsum board; (b) control or affection of prices of unpatented gypsum products, and (c) control over terms and conditions of sale and distribution thereof."

And in spite of what the Supreme Court had held, what the Supreme Court declare were the operative facts, facts which were determined by indisputable records, in spite of these operative facts which the Supreme Court enumerated, and which your Honors have summarized in Finding 5, [fol. 1902] that prices were fixed in the sale of all kinds of gypsum products, patented and otherwise, that jobbers were

eliminated, that trade practices were standardized, in spite of all that, we still hear the same argument that the only thing that was wrong here was that "we fixed prices, and as soon as we stopped fixing prices, we are entitled to be treated as though the entire misuse has been purged."

And in Judge Bromley's argument, I think he presents the same fundamental error, "that as long as we offered licenses which did not contain price fixing provisions, everything was fine, and we should be allowed to continue to collect," whereas the Supreme Court has held, and this court has given force to it, the Supreme Court has held that you do not, you do not effectuate a purge until all of the evil defects of the misuse have been dissipated, and transferring that determination to this suit, that means that U.S. Gypsum has not purged itself of its misuse, and the misuse will not be disregarded until all of the evil defects, all of the evil effects, which the Supreme Court has enumerated in its opinion, and which this court has summarized in Finding Number 5, have been dissipated so that the industry is brought back to a sound, competitive basis.

Judge Worley: How can they go about proving that?

Mr. Rosenman: Sir?

Judge Worley: How can they go about proving that they have purged themselves of any misuse?

[fol. 1903] Mr. Rosenman: We contend, sir, that they cannot prove in the face of the fact that the Supreme Court considered an appeal from the decree of 1949, which they held was too narrow, and which they broadened so as to contain provisions which I shall enumerate in the course of my argument, that until the decree of 1949 was so broadened by the decree of 1951, as to dissipate the evil effects of the misuse, they cannot, no matter how many witnesses they call, they cannot prove a purge, and that is fundamental to the position that we took and I think to the position which this court took, that the decree of 1949 was too narrow, that it did not dissipate the evil effects of the misuse, and the monopoly,. otherwise the Supreme Court would not have broadened the decree in the way that it did, and what the Supreme Court said was that this decree in effect, that this decree of the District Court of 1949, is not adequate to open up the evil effects of the monopolies and the restraints and "therefore we're going to broaden the

decree in the following respects in order to effectuate a complete wiping out of the monopoly and unlawful restraint."

Judge Worley: Did that action wipe it out?

Mr. Rosenman: We contend, sir, that at least in 1951—at least not before 1951, the decree of May 15, 1951, was this industry completely opened up and freed of the restraints which U.S. Gypsum had imposed upon it. Otherwise, the Supreme Court would not have broadened and liberalized [fol. 1904] the decree of May 15—June 1949. And that is why I stated that at least until the decree of May 15, 1951, the Supreme Court was not satisfied that enough had been done to open up this industry, and it is not enough, it is not enough, for the malefactor in a patent misuse case, to come forward and say, "Now that the ill effects of what I have done have been exposed, I can purge myself merely by coming in and offering you some new licenses."

In the first place, the Supreme Court said that those licenses are not broad enough in very important respects. In the second place, the Supreme Court said, "in addition to the licenses there are certain affirmative acts which you must take, and until you take those affirmative acts, and those affirmative acts are set forth in the decree of 1951, until you take those affirmative actions, there has been no purge of the misuse," and the important thing here is that until those actual steps were taken, and until the Supreme Court laid them down in the decree of 1951, U.S. Gypsum, no matter how many witnesses it calls, cannot prove that the ill effects of its misuse have been dissipated.

Judge Worley: Have they taken those steps into the Supreme Court laid down in 1951 and in this decree of 1951?

Mr. Rosenman: So far as we know, outside of the bringing of this suit, which I will come to, what your Honors have called a continued misuse, so far as we know, and we make no claim to the contrary, that the decree of 1951 of [fol. 1905] this court has been complied with.

Judge Worley: Does your company operate under a license from U.S.G.?

Mr. Rosenman: Yes. Pursuant to that decree, we took a license in 1951, and we have been operating under that license and we have been paying our royalties.

Judge Worley: Does Ebsary do the same?

Mr. Rosenman: Ebsary and Newark did not take licenses.

Judge Worley: Do they use the license without compensation?

Mr. Rosenman: Sir?

Judge Worley: Do Ebsary and the other company use the licenses without compensation?

Mr. Rosenman: I would rather have them answer that themselves. But my answer to your Honor is that they have claimed that they are not using this patent. They claim that they use another patent, and that they are not using the patent on which they are being sued. We make no such contention. We have taken a license and are using the patent and are using this patent on which they are claiming for the pre-decree period.

Judge Worley: Pardon me for interrupting your argument I just wanted to get that straight.

Mr. Rosenman: As I say, fully 95 percent of the arguments presented here this morning have been gone over and these are essentially a rehash of them.

[fol. 1906] We believe that your Honors were right in your decision of last December. We are convinced that with the exception of two points which I shall wish to discuss, nothing new has been presented here to suggest to your Honors that your conclusions should be changed, and I should add that the two points which I wish to discuss are really not basic to your Honors' conclusions. We think that your Honors' conclusions here are basically unassailable, and that the arguments, the two new arguments which have been advanced, we think, one, are not valid, and two, even if they are valid, would not affect the validity of your Honors' conclusion.

Now what is the basic ruling of your Honors' opinion which we contend is completely unassailable? It is, first, that counts one and two, which have been—which are based expressly upon license agreements, which have been held after years of litigation to be illegal, null and void, that those counts must be dismissed. I don't even think that U.S. Gypsum here is seriously contending that that was an error.

The second basic ruling which your Honors have made is that on this record, on the printed record, it is incontrovertibly true that U.S. Gypsum misused its patents in that

it did not and could not purge its misuse at least prior to the final decree of May, 1951, and therefore, your Honors' conclusion is that all claims of Gypsum, U.S. Gypsum, the contract claims, the indebitatus assumpsit claims, the quantum meruit claims and the infringement claims, are all [fol. 1907] barred for at least the pre-decree period, based upon this misuse, and then your Honors went forward and adopted the contention which we made that the very bringing of an action, based not only upon infringement or an alleged infringement, but based upon claims, upon agreements which the Supreme Court and this court had solemnly declared to be null and void and illegal, that the bringing of claims on those counts constitute a continuing misuse, constitute a continuing attitude on the part of U.S.G. that the only thing that was wrong, the only thing that they were wrong in, was trying to fix prices, and that they can still, they can still, claim royalties and sue for royalties on an express agreement which this court and the Supreme Court have twice declared to be illegal, null and void.

Now I contend that these findings and these conclusions which your Honors have made are completely unassailable.

Now one of the things which U.S.G. here presents which goes to this basic ruling and it is not anything new because they argued it at great length in their briefs and before your Honors orally, is that they should be permitted to show a purge, because purge is essentially a question of fact.

Now they did not take that position exactly fifteen months ago. They went much further. They said that "the facts which we want to present to your Honors and which we do hereby present to your Honors, not only raise questions of fact, but as a matter of law, as a matter of law, on which no [fol. 1908] hearing is necessary, we contend that they show a purge as a matter of law." Now they were so wrong in that, they were so wrong in that that your Honors held exactly to the contrary, "that not only do these facts not show purge as a matter of law, but that even if you urged them as a question of fact, the record is so clear to the contrary, the record facts which are indisputable, are so clear to the contrary, that we should not even waste the time of having a hearing on the question of purge, because no

matter what you prove through your witnesses, the law is, the law is, that you cannot have any purge, at least before the decree of this court based upon the second appeal to the Supreme Court of May 15, 1951, and we go further and say that your continuing misuse as of today is, as a matter of law, unpurged because these suits are still on the docket in Iowa, and therefore, as a matter of law, you have not purged yourselves even as of today."

Now of course purge is a question of fact, just the same as a great many things are questions of fact, and yet the law books are full of cases which say that on incontrovertible record facts there can be no issue of fact here, otherwise why do we have the remedy of summary judgment, which says that although the question here may be issues of fact, the facts of this case, the incontrovertible facts of record, are so clear that it would be useless to have a hearing because no matter what witnesses you called in, [fol. 1909] you could not dispute the incontrovertible questions of fact, and that is exactly what this court did, sirs, in 1949, when it granted summary judgment, and it is what the Supreme Court did, when it sustained the summary judgment.

Judge Bromley came in and said, "We want to prove certain things here. We have Mr. Avery here. We want him to take the stand and deny certain things", and this court said, "How can you deny things which are clearly a matter of record here", and the Supreme Court said that the underlying facts here are such that no matter what you come in and try to prove," the fact is that you were guilty of misuse, and therefore we won't waste the time of the court or of counsel or of witnesses by having a useless hearing." That is what they held about the defenses of U.S. Gypsum back in 1949 and that is exactly what your Honors have held with respect to the claim of purge here, and I think it is a very sound conclusion, and there is no use having a trial to prove things which would be wholly immaterial in the face of what has become a part of the record and which cannot be denied.

Now Finding 22 of your Honors' findings and conclusions, discusses these five points that are raised and which the U.S. Gypsum raised as a matter of law determining purge. And what your Honors have held with respect to the fact

that these five items not only do not show purge as a matter of law, but that as a matter of fact, we can say that there [fol. 1910] never has been any purge, seems to me unassailable for the following reasons: After this District Court on November 7, 1949 entered its first decree, and an appeal was taken—now why was the appeal taken? Now why was the appeal taken? The appeal was taken because the Government felt that the decree of 1949 did not adequately open up this industry.

It said that the license agreements are null and void. It said that "you should license them," but here are some of the defects which the Supreme Court found in the decree of 1949.

Your Honors will recall, I am sure, and maybe still have before you this tabular arrangement which we submitted to you showing the articles of the 1949 decree, and the articles of the 1951 decree, and your opinion shows that you have given due consideration to these changes which occurred between 1949 and 1951, pointing out that what was done by the Court in 1949 did not satisfy the Supreme Court, that this industry had been opened up to a competitive basis.

Judge Worley: The appeal of the Supreme Court of '49, the appeal by the Government, did you participate in that proceeding before the Supreme Court?

Mr. Rosenman: No, sir.

Judge Dorley: You did not brief any point discussed by the Supreme Court?

Mr. Rosenman: I, personally?

[fol. 1911] Judge Worley: Yes.

Mr. Rosenman: No, sir.

The decree of 1949, just to point out some of the highlights of the points of difference between the decree of 1949, which Judge Bromley now urges as a purge and the decree of 1951, which we urge was the earliest that there could have been a purge, the decree of 1949 said that patents must be licensed by U.S. Gypsum to the defendant licensees. It said the patents which are now in effect—there were a total of nine patents—now the Supreme Court found that was not sufficient to open up this patent restriction, this patent pool, whatever you want to call it, these restraints, these monopolies, and the Supreme Court said "we are going to extend that decree; we are going to make you open up not

only the patents which you now have, but the patents which you are going to acquire for the next five years, any patents which you get in the next five years, you must offer to the entire industry.

The decree of 1949 said that, "You must only license your patents to someone who comes in within 90 days." The Supreme Court said that does not open up the industry enough, and it said, "We are going to remove this time limit, and we are going to say that for all time hereafter, in order to maintain this competition which we are striving for, you must offer your patents on a royalty basis to anybody, six years from now, ten years from now, not making them come in within 90 days."

[fol. 1912] The third, and this is a very important extension of the 1949 decree, was that although the 1949 decree said that "you must offer a license within 90 days on these few patents of yours," it said nothing about figuring the royalty except that the royalty cannot exceed the amount which you fix in your license agreement.

But what the Supreme Court said was this: "We won't stand for that because you may be asking for too much money. What we will do will be to say that you must offer your licenses for all time to all comers and on all patents that you now own or will own in five years, and you must offer them on a reasonable royalty basis."

And then something which Judge Bromley referred to as very inconsequential, but which the Supreme Court deemed very important, was that the decree of 1949 gave U.S. Gypsum the right to come in and look at my books, and say, and find out what my quantity and price figures were.

Now that was one of the very strong devices by which they maintained restraints and monopolies, and it is not an inconsequential thing. It is very important, and was found to be important as an instrument for maintaining restraints, and so the Supreme Court said "you cannot have that right. We will merely give you the right of inspection through an outside accountant, but the only thing that he can look for is the necessary figures to determine the amount of royalty that is due." And then the decree of [fol. 1913] May 15, 1951 enjoins collecting royalties on all patent-free products.

Now it is our contention, sir, and I think your Honors

sustained that contention, and your decision, I think, is unassailable, that until license agreements were offered by U.S.G. which complied with what the Supreme Court of the United States had said should be contained in license agreements, until that kind of license agreement was offered to the industry, and until they complied with the broadened decree which the Supreme Court entered, which the Supreme Court directed this court to enter on May 15, 1951, the broadened decree which provided for compulsory licenses to everybody on a reasonable royalty basis, a decree which said that "we are going to extend this injunction not only with respect to gypsum board, but with respect to all gypsum products," a decree which also increased the geographical limits from the eastern part of the United States, which is what the decree of 1949 did, increased it to the entire United States, an injunction, a decree which enjoined certain specific practices in addition to price-fixing, the standardization of practices, the exclusion of jobbers, a decree which made clear that there could not be any basing point pricing, until the Supreme Court directed this court, in 1950, and this court in 1951 framed its decree which embodied all these broader provisions, which the Supreme Court said were necessary to open up this industry, free it [fol. 1914] from the shackles of restraint and monopoly, and until that was done, we have urged, and your Honors have agreed with us, that there could not be a purge.

Now that date was May 15, 1951, and the fact that two years before that it is alleged, not proved even yet, but it is alleged, that U.S. Gypsum offered some licenses to these licensees, that they had eliminated the price-fixing provisions, those things, even if proven, could not establish a purge, and your Honors have held as a matter of law, because those license agreements could not have complied and did not comply with the license agreements which the Supreme Court said were necessary, and which this court, your predecessors, this court, said in 1951 was necessary, unless those license agreements complied with those provisions, there could not be a purge.

Now, we argued that fifteen months ago, and the respondents argued to the contrary. Your Honors have adopted our conclusion, and we think that your conclusion is correct, and we think that as a matter of law, there has been

no purge and that it would be useless to have a trial on the issue of whether there is a purge because no matter what they prove, they cannot controvert the fact that the decree of 1949 was appealed from by the Government, that the Supreme Court said that decree is not adequate to open up this industry, "we are going to broaden the decree, we are going to broaden the injunctions," and until that decree was broadened by the Supreme Court and adopted in the [fol. 1915] decree of this court, there cannot be a purge and no purge can be proven and therefore, as a matter of law, there can be no purge, and I should add that this would not be the first time that a court has held as a matter of law, that there is no purge and granted summary judgment on that subject, and in a case which I—a District Court case which I should like to refer to your Honors and which we mention in our brief, with respect to another matter, however, *Schiplets versus June Dairy Products Company,* 89 Federal Supplement, 814, a case in the District Court of New Jersey.

Now in the face of your conclusion that as a matter of law, there can be no purge, they have urged only one new fact which they say they want to prove.

Judge Stone: Pardon me, Judge Rosenman, but before you enter upon that subject, it might be well for us to take a noon recess. The court will adjourn until 2:00 o'clock.

(Whereupon the Court, at 1:05 P.M., did recess until 2:00 P.M.)

[fol. 1916] AFTERNOON SESSION 2. P.M.

Judge Stone: Judge Rosenman?

ARGUMENT ON BEHALF OF NATIONAL GYPSUM COMPANY

By Mr. Rosenman: (resumed)

Mr. Rosenman: At the recess, if your Honors please, we were discussing the question as to whether or not purge could ever be shown prior to the decree of May 15, 1951.

I should like to state to your Honors that in discussing this, I am not discussing what I referred to as two new points which were raised. This whole question of purge was covered in the briefs and covered in the argument fifteen

months ago, so that we contend that this is a rehash of the argument which was had before your Honors.

In this connection, I wish to state that the only new fact which they assert here in connection with the subject of purge is the fact that there was a passage of time and the intervention of a war, and if I am correct in my argument and if your Honors are correct in your conclusion that there could be no purge before the Supreme Court had opened up this industry to competition, the fact that time passed and the fact that there was a war would be wholly immaterial.

In the brief and in the argument this morning, the only fact that I could find which was in any way disputed, in other words, which could possibly call for a trial, would be the fact as to whether or not U.S. Gypsum acquiesced in the [fol. 1917] repudiation of the licenses. In other words, that they might state: "We were willing to repudiate the licenses after the finding of null and void."

But with respect to that, this court considered that claim and disposed of it very forcefully and I submit, very accurately in 22(b) of its findings, where it said, "that the claimed acquiescence of U.S.G. to the repudiation of the illegal agreements by petitioners following the first appeal was one of the grounds urged," and then you point out that, "the record herein does not support the claim that U.S.G. acquiesced in the cessation of payments by the petitioners."

You go on to say in connection with the form of decree to be entered after summary judgment was granted, that is in 1949, U.S.G. not only did not claim that the licenses had been rescinded, but it urged strongly that only the minimum price-fixing provisions were illegal, and that in all other respects the license agreements should be cancelled only as of the date of the decree to be entered.

At that time and thereafter it made clear, U.S.G. made clear, that it expected to have and waived no rights to have compensation for the use of its patents, so as you point out there, the record shows that there was no acquiescence of this repudiation. And here too, even if there had been, which they never can prove took place because the record shows the contrary, but even if there had been, as I tried to [fol. 1918] point out this morning, the Supreme Court said

that that was not enough to dissipate the evil effects of this monopoly.

So that to repeat, with respect to purge, I respectfully urge that this court's conclusion was correct, that not only does the claim of purge made in the briefs and in the argument fail to establish itself as a matter of law, but that in spite of those claims, and on the undisputed record, the law is that at least until the decree of May 15, 1951, there could not possibly be a purge as the law of misuse understands it.

I should like now to pass to one of the new things which is raised by the respondents here, and that is its contentions with respect to the Hartford Empire case.

I should like at the outset to call your Honors' attention to the fact that we have urged the Hartford Empire case as additional authority here for enjoining all forms of enforcement of misused patents prior to the final decree. I should point out further that this court followed us, at least part way, with respect to that contention. But that, even if it had not followed us with respect to that contention in Hartford Empire, there is still enough in this court's findings to justify the conclusion of law and the modification of the decree which it made, because this court relied not only upon the Hartford Empire case, but relied upon at least the three other things, namely, the unpurged misuse before May 15, 1951, which I have talked about. It relied upon [fol. 1919] the continuing misuse, which was—which is the characterization of their conduct, by continuing to seek compensation on illegal, null and void agreements, and on what this court described as the practical and legal situation.

So that even if the court did not adopt the Hartford Empire case, our reasoning and your reasoning in the Hartford Empire case, there is still enough in the findings of fact, and in the conclusions to justify the action which this court has taken.

However, we urge the Hartford Empire case, and this court adopted it, as being the first and the classic statement of what the courts of this land do in a patent situation where there has been a wide misuse of patents resulting in a violation of the antitrust laws, such as the industry concerned here, the industry which we are talking about.

I might point out that if the Hartford Empire case had

never been decided on its own facts, that there are plenty of cases which follow the Hartford Empire case, like the National Lead case and others and we cite some forty or more or less cases of consent decrees where in Government suits defendants have signed consent decrees carrying out the basic teaching of the Hartford Empire case.

What is that basic teaching? For the first time, Hartford Empire announced the doctrine which, as I say, has been followed in many cases since and which is now considered almost as elementary, that where the Government brings an [fol. 1920] anti-trust suit, and the misuse doctrine is applicable, as it is here and as it was in the Hartford Empire case, that there are two remedies, almost orthodox remedies, which are now followed: The first is that the patents which have been the subject of misuse are thrown open to future compulsory licensing. That happened in our case and it is traditional, one of the traditional remedies afforded, where a patent misuse permeates an industry.

The Court says: "From now on you are going to have to license these patents to anybody who wants them on a reasonable royalty basis."

And the second traditional remedy is that, "We will prevent you by injunction, we will prevent you, who have misused your patent privileges, we will prevent you by injunction from enforcing your patent rights until such time as the evil effects of the misuse have been fully dissipated."

Now, this means, as the Hartford Empire case said, and as many other cases have said since, that until a final decree is entered which dissipates the restraint, "You cannot enforce the misused patents." And once the restraint has been dissipated, then, of course, "You can enforce your patents, and you can obtain compensation, but it must be on a reasonable basis, and you must offer it to everybody in the industry."

That is all that we claim that the first Hartford Empire opinion said, and the first Hartford Empire opinion was very clear and specific as we set out at page 44 of our main [fol. 1921] brief, and if your Honors will indulge me, I would like to read what we consider, and what I think your Honors have considered, as the basic teaching of the Hartford Empire case. We think it is controlling here, and it has been followed in many similar cases since.

It said that: "Hartford and the other corporate defendants mentioned in Paragraph 24 should be required to lease or license glass making machinery of the classes each now manufactures to any who may desire to take licenses under patents on such machinery or on improvements, methods or processes applicable thereto at standard royalties, and without discrimination or restriction, and if at the time of entry of the decree, there are any alleged infringers who are willing to take such licenses, they should be released, and the patent owner be deprived of all damages and profits which it might have claimed for past infringement."

Now that is the basic teaching of the Hartford Empire case, and it has been repeated in National Lead and many other cases since.

That basic conclusion of the first Hartford Empire case was not modified, it was not modified, by the second Hartford Empire opinion.

Judge Bromley has very eloquently talked about our Anglo-Saxon system of law which prevents the taking of private property without compensation.

[fol. 1922] There are exceptions to that, and one of the exceptions, which has now become almost standard, is this exception which was enumerated in the Hartford Empire case, and which your Honors considered, which your Honors followed, and which has been followed by many cases, namely, that as we argued before your Honors fifteen months, that the privilege of a patent is a peculiar kind of property, that when the Government gives you a patent, the Government gives you a monopoly, it gives you the right to do many things which a non-patent owner cannot do with his property. But this misuse doctrine is very clear, and it means that if you misuse this very unusual kind of property, if you go beyond the monopoly limits which the law allows you, as a patent owner, and if you use it for an ulterior, illegal purpose, then certain things happen to you, namely, that during the time that you use this to acquire further monopoly, to promote further restraints, that while you do this, we will prevent you from enjoying the fruits of your patent. We will not let you sue people who infringe upon the patent, and we will prevent you from doing that until such time as you not only reform yourself, but until such time as the industry which you have bound up in un-

lawful restraints is permitted to free itself from the shackles of those restraints.

Now this doctrine was first announced as among private litigants in the Morton Salt case, and it was announced in the Hartford Empire case for the first time in Govern- [fol. 1923] ment suits as distinguished from suits between individuals, as the Morton Salt case was.

But it is a doctrine which has become a firm part of our jurisprudence, and the Hartford Empire case announced it first, other cases have followed it, and what the respondent is seeking to do here is to seize upon some language and holding in the second Hartford Empire case, and claim that in some way it modified the holding in the first case, to their advantage.

It is our contention, and they urge this for the first time, it is our contention, that no such result obtained, that the second Hartford Empire case has nothing to do with the basic teaching that a misuse of a patent gives rise to these orthodox remedies of compulsory, reasonable royalty licensing, and a refusal to permit enforcement of the patent during the period of misuse.

However, in the Hartford Empire case, there was a situation which with the limit of time at my command has failed to disclose a duplicate of, namely, there were two situations in the Hartford Empire case which are different from our case, and I think one of them is almost unique in the Hartford Empire case, although as I say, I have not had time to look at all of the anti-trust cases to establish that.

But I think what is unique is that a receiver had been appointed pendente lite, and the receiver, of course, stood in the shoes of Hartford Empire itself. The receiver had [fol. 1924] been appointed to operate the business and the reason the court appointed a receiver was that the restraint was so bad that it thought that in order to carry out its decree, the presence of a receiver would be necessary.

Now one of the jobs of a receiver of a business is to pay its debts, to collect the monies which it claims is due it, and to carry on the general management of the business, and in the general management of the business, this receiver had asked and received royalties.

Now the royalties were not only for the use of patents,

the so-called royalties were due to the Hartford Empire and to the receiver by reason of license agreements which did a number of things: The license agreements which the Hartford Empire Company used to issue provided that: "We will collect royalties from you for the following: One, we license you to use our patents; two, we are going to lease to you certain machinery which is necessary in the manufacturing of glass containers and other glass products; and three, any time this machinery fails to operate, you call us and we will come around and repair it, we will perform services on this machinery.

So the license agreements which we are talking about in the Hartford Empire case are not like the license agreements in U.S. Gypsum which merely license the use of patents.

In the Hartford Empire case they licensed the patents, they leased the machinery, and they performed services on the machinery.

[fol. 1925] Now the receiver came along and said, " I would like to collect under our agreements. You owe us some money for our patents and for our machinery and for the services which we have performed," and by and large the licensees said, "All right," and they paid and they paid the receiver what they were obligated to do under the license agreements.

These payments were for these three things, the patent rights, the machinery rentals, and the services performed.

Now that is the first very fundamental difference between the Hartford Empire case and the U.S. Gypsum case. In the U.S. Gypsum case we did not pay licenses for these agreements because these agreements had been declared null and void; in the Hartford Empire case, the licensees did pay.

Now there is a vast difference in a situation where, if we had paid these fees and were here now asking your Honors to direct U.S. Gypsum to return them to us, there is a vast difference between that situation, and the situation where we refused to pay the fees because the agreements had been called illegal, null and void, and U.S. Gypsum comes into Iowa and says, "We want you to pay the fees irrespective of the declaration of nullity."

In other words, it is elementary that if two parties are parties to an illegal agreement, and they continue to make

payments, under it, that one party cannot sue to get it back. That was the situation in Hartford Empire.

[fol. 1926] And the situation where two parties are operating under an agreement held illegal, and one wants to sue to get royalties under that illegal agreement, and the courts say, just as this court said, "This is an illegal agreement, it has been adjudicated illegal, and therefore, we will not help you enforce it."

That is quite a different thing from saying to someone who has paid under it, "We not only will prevent further collections under it, but we are going to give you the right to get back these payments which you voluntarily made under this illegal agreement."

Now in Hartford Empire, the payments had already been made, and they were made pendente lite.

Now the first Hartford Empire case said, as your Honors quoted from it in your conclusions and in your opinion, the first Hartford Empire case said, "Now these payments which you have made to the receiver, we are going to abolish the receivership and remove him from office because we don't think he is necessary anymore, but these monies which the receiver has in his pocket, and which you have voluntarily paid to the receiver or to Hartford, because they are the same entity, these payments which you have made, we are going to let Hartford keep."

Now the Government realized that that was a harsh rule on these licensees, who were paying at least part of royalties on misused patents, so they came to the Supreme Court and said, "We would like to get a re-argument, and reconsid-

[fol. 1927] eration of this because we are sure that some of these licensees made these voluntary payments because there was a court officer there, a receiver, on the assumption that if these licenses were held illegal, that they might get it back, and therefore we think it is unfair to these licensees to say that because they made a voluntary payment which would ordinarily bar them from recovering this money, we think it is unfair in view of the fact that a court officer was there, and because the court had said that if these decrees are affirmed that, you will get your money back, and because of that we think it is unfair and therefore we think you ought to change your ruling with respect to this money.' "

And the Supreme Court said, "We agree with you, and,

therefore, what we will do with this money is to say that if a man wants to continue to be a licensee, why let Hartford Empire keep this money, but if he does not want to be a licensee, if he wants to repudiate it, then this money should be returned to him.

And they said something further which is very pertinent. They said that any lessee who has not paid, any leasee of machinery and any lessee of a patent, licensee of a patent, who has not paid, need not pay, which is exactly what we claim here, that any licensee of a misused patent need not pay until the license, until the evil effects of the misuse have been dissipated.

[fol. 1928] Now, on remand of this to the District Court with these instructions—I think I misspoke myself where I said that if they did not take the license, they need not pay; what the court said was, "If you don't take a license, if you want to repudiate the license, you may litigate the question as to whether you get your money back or not."

And this remand went back to the District Court. At the time it considered the formulation of the decree, a great many licensees intervened, and the decree itself, the formulation of the decree, took a very long time. It is a very long decree. This is it. This is the judgment in the Hartford Empire case, and this was what is known as a negotiated decree. There were many points settled pro and con, and one of the things that was settled was the question as to what should happen to this money, and for a number of reasons, the parties decided that instead of litigating, as the Supreme Court had given them the right to do, instead of litigating whether they should get their money back, and also instead of litigating, in suing Hartford Empire maybe for treble damages, that the parties would get together and settle the entire case with respect to the monies which had already been paid. And so they did get together and formed this decree, and in the decree, as was pointed out here this morning, Hartford was allowed to retain 40 percent of the royalties which the receiver had collected.

Now as a part of that settlement, Hartford lowered its [fol. 1929] future royalties by 50 percent. Now about that 40 percent which Hartford was allowed to retain: nobody knows, and the decree does not make clear, how much of that 40 percent was for the patent rights, how much of that

40 percent was for the use of machinery, and how much of that 40 percent was for services.

Some part of it was undoubtedly for patent rights. But what the Supreme Court had said, the Supreme Court had said nothing about settling this. The Supreme Court had said, "You may litigate the question as to whether you are entitled to recover back even those royalties which you had already paid," but instead of litigating, they settled the case.

Judge Cole: All parties did that?

Mr. Rosenman: All parties settled it. And so far as I know, everybody signed the decree.

The fact is that some of the licensees, or some of the parties who used the patents, who did not want a settlement, some of the parties who used the patents in an unauthorized manner, who did not want to settle, did not pay anything.

They were given what has been called a free ride here. In other words, the people who wanted to get licenses, settled. The people who did not want to get licenses, but who had used the patents without using any of the machinery of Hartford Empire, were allowed what was called here a free ride. They were allowed the privilege of not [fol. 1930] paying for the use of the patents during the predecree period.

Judge Worley: Did the court specifically hold that?

Mr. Rosenman: Sir?

Judge Worley: The court specifically held that?

Mr. Rosenman: The court said that—the Supreme Court did not consider the question of those who were infringers, but the fact is that the decree said in so many words, and I want to hand up to your Honors, if I may, instead of this long, printed volume, of which we only have one copy, three copies of excerpts of Paragraphs 15 and 16 of the decree which dealt with this question of what happens to the money and if your Honors will look at 16(c), you will see that they refrained from seeking recovery and, for the moment, disregard the parentheses, I will come back to that, seeking recovery under patents relating to machinery, and methods used in the manufacture of glassware, before the time of the entry of this judgment, so that the decree as entered, 16(c) stated that anybody except any corporate defendant,

which I will come to, who has used these patents relating to machinery, and methods used in the manufacture of glassware, need not pay for them for any time prior to the entry of this judgment.

And that was in conformity with what the Supreme Court in its first opinion had stated, and what had become orthodox doctrine, namely, that you cannot sue for infringement of a patent which occurred before the final decree.

[fol. 1931] Judge Worley: I don't follow that last language.

Mr. Rosenman: Which one, your Honor?

Judge Worley: You went from——

Mr. Rosenman: 16(c)

Judge Worley: Where did you go from (c) to?

Mr. Rosenman: It starts at the beginning, "The defendants are enjoined from seeking recovery under patents relating to machinery and methods used in the manufacture of glassware now owned or controlled by those defendents for asserted infringements arising out of the use of such machinery before the time of the entry of this judgment."

Now there was an exception made in this decree which Judge Bromley has referred to, and which is contained in 16(c) in the parentheses, "except as against any other corporate defendent."

The Supreme Court said nothing about this in its opinion, said nothing about the fact that corporate defendents would be excluded from this bar of infringement claims. This entire decree was a long, negotiated decree, and there is nothing to show why the parties agreed to this exception. There are a number of reasons which might be suggested, that this was a settlement of possible litigation which other defendents might have started against Hartford Empire. It may be, as appears from some statements in the course of this litigation, that Hartford Empire should be kept alive, because Hartford Empire was the most efficient en-

[fol. 1932] tity in repairing these machines, in keeping them going and leasing the machines and it may be that that was the reason that corporate defendents were excluded.

But certainly there was nothing in the court's opinion which compelled the exclusion of corporate defendents in this general injunction provision.

I might call your Honors' attention to 16(b), which goes

further and does not refer also to everybody who takes a license, including the defendents. 16(b) says that, "Hartford Empire is enjoined from refusing to grant to anyone willing to take a license a release for all claims for damages and profits for the alleged infringement."

In other words, as a part of this negotiated decree, it said that if anybody, including a co-defendent, including a co-defendent, if anybody wants to take a license that they should get a release from all other claims for damages and profits for the alleged infringement. This would seem to include any kind of a cause of action.

Now, I should add, and direct your Honors' attention to the fact that if we are trying to draw a parallel between this case and U.S. Gypsum case, which really is not necessary, that my client did take such a license, and therefore even under the ruling of Hartford Empire, even if he had actually paid, he should get a release for all claims for damages and profits for infringement.

[fol. 1933] So that even under this peculair situation which was given rise to by the fact that a receiver had been appointed, and that payments actually had been made, National Gypsum here would be absolved from the payment of any royalties of any kind until the time of the entry of the decree.

Now U.S. Gypsum makes one point with which we do agree. In this court's opinion, and in this court's conclusions, we think that this court misconstrued one of the items in the Hartford Empire case. But we are astonished to find that U.S. Gypsum is complaining of that because we are the ones who should be complaining.

May I read to your Honors from your Honors' opinion at Page 31, which is what we are talking about. At the bottom of Page 31, the next-to-last paragraph, you quote from the opinion stating: "In view of the modifications required by the opinion of this court, such licensees must pay reasonable rental and service charges on a quantum meruit basis, leaving out of consideration any amounts otherwise payable for the privilege of practicing the patent inventions involved in respect of the machines used in this interim."

Then your Honors go on to say that as a result of that, you conclude that the quantum meruit claim for pre-decree infringement was allowed by the Hartford Empire case,

and therefore should be allowed in this case. The fact is that in the Hartford Empire case, as I pointed out, the facts [fol. 1934] are that the royalty payments were being made not only for the patents, they were being made also for the use of the machinery, and for the payment for services in repairing and servicing the machinery.

And what the second Hartford Empire case was saying is "that so far as the patents are concerned, we are not going to allow a claim for compensation, but we will allow a claim for quantum meruit for the rental of the machines and for the rendering of services."

We think this court, we agree with U.S. Gypsum that this court misconstrued the language to mean that, "We will allow a quantum meruit for the patent, for the use of the patent, as well as for the use of the machinery."

In other words, we think that this court said in misconstruction of what the Hartford Empire case said, that what the Hartford Empire case said was that, "We will not permit a suit for infringement because of the misuse, but we will permit a suit on quantum meruit."

And as a result of that misconstruction, this court said, "We will allow this suit on quantum meruit," although, fortunately, this court went further and said, "We will not even allow a suit on quantum meruit, if in fact there has been a misuse of a patent."

Now when this court said that the Hartford Empire case allowed a suit in quantum meruit, it is we who should complain about that because we urge that the Hartford Empire [fol. 1935] case did not say that, "We would allow a suit in quantum meruit for patents," but said merely, "We will allow a suit in quantum meruit for the rental of the machinery and for the use of our services in repairing the machinery."

So that we are the ones who should be here asking your Honors to correct that statement, because we contend that Hartford Empire forbids any kind of an action, because what it talked about is any action for damages or profits and that Hartford Empire is authority for the proposition that when there has been a widespread misuse of patents, that no form of action is allowed to recover for the use of those patents, and therefore, when your Honors said Hartford Empire did allow a quantum meruit case, a quantum

meruit claim, we should have been in here asking for a re-argument, because in fact, Hartford Empire does not permit a claim upon quantum meruit.

However, the reason that we did not was that your Honors went further and said that even if there is a misuse—even a quantum meruit will not be allowed in the event of a misuse which has not been purged.

The astonishing thing is that in some way which I do not understand, although I have read and re-read the briefs and listened carefully to the argument, U.S. Gypsum seems to make the argument that because this court did make that misconstruction of what the Hartford Empire case held, that by some kind of legerdemain or necromancy, that their conclusion that Hartford Empire forbids an injunction—an [fol. 1936] infringement suit, is also a wrong conclusion. Now there just is no point to that at all. They just cannot sustain that contention.

What this court said was that Hartford Empire forbids an infringement suit. We agree with that. This court said that Hartford Empire does not permit a quantum meruit suit. We disagree with that—which does permit—this court said Hartford Empire does permit a quantum meruit suit. We disagree with that. We respectfully urge Hartford Empire does not allow a quantum meruit suit for the use of the patents any more than it does an infringement suit and therefore, we are the ones who should be here saying we want your Honors to change that, and to say that on the strength of Hartford Empire, neither Count 5, the infringement suit, nor Count 4, the quantum meruit suit, should be permitted.

Judge Cole: I don't quite understand the difference you draw between the use of the patents as compared to the machinery and so forth.

Mr. Rosenman: Well, the use of the patents, what the Supreme Court held was that the patents were being misused, not that the machinery was being misused or that there was any misuse in charging for the rental of machinery or any misuse in charging for services in repairing the machinery.

Judge Worley: But the machinery was covered by the patent, was it not? Was the machinery covered by the patent?

Mr. Rosenman: No, sir, there were patents involved in [fol. 1937] making the machinery, and those patents were misused. There the machinery was actually rented. It was owned by Hartford Empire, and it was rented to the users of the machinery.

Judge Worley: The patents were process or method patents? Is that correct?

Mr. Lewis: Hartford did claim they had process patents covering the machinery. The Government claimed that these patents were invalid and there was a proceeding to determine the validity of many of these basic patents, which came subsequent to this final judgment, but that proceeding too was settled so that the scope of these patents, I don't believe was ever determined in this litigation.

Mr. Rosenman: At any rate, the opinion of this court made it clear that what was being sued on here, what was involved here were royalties for patent use and royalties, as it says in his opinion, for services or for machinery. And what it did was to distinguish between the two. It said that, "We will permit suit for the use of machinery which is owned by Hartford Empire. The machinery which you are using is not owned by you, it is owned by Hartford Empire. You are using it and have used it, and therefore you must pay for the use of that machinery, but what you were paying for the use of patents, what you are paying for the use of patents, you do not have to pay for and we will forbid Hartford Empire for suing you in infringement for the use of the patents. We will not forbid them from suing [fol. 1938] you for the use of the machinery."

Judge Cole: Use of patents would amount to very little without the machinery, would it not?

Mr. Rosenman: Well, it might be very substantial, and we don't know—there is nothing to tell in this decree how much in this settlement, how much was paid for patents as distinguished from how much was paid for the use of the machinary. But for the use of the machinary, the court held, "You were entitled to a quantum meruit on that, whatever a quantum meruit would bring you, but you are not entitled to anything for the use of your patents because your patents were misused in this vast conspiracy for restraint."

Where I think this court misconstrued the holding was that although the language of the Hartford Empire case

indicates that what it was doing was forbidding the infringement suit, but allowing a claim for quantum meruit, not for the patents, but for the services as it says, that in some way the court had said, "We will permit quantum meruit also for the patents," and we think that was an error. We agree with U. S. Gypsum that there was a misconstruction there; that the court was talking about two different things, one is the royalties for patents, and one is the royalties for the use of the machine, and they should be distinguished.

Now, what this court's opinion said was that Hartford Empire permits quantum meruit for the patents as well as [fol. 1939] for the machine, and we think that that is a mistake.

I repeat, we did nothing about it because the court, this court, then went on and said: "However, even as to quantum meruit, if there was a misuse here in the U. S. Gypsum case, if there was a vast misuse which continued at least up to 1951, even quantum meruit will not lie," which is the fourth division of your Honors' opinion.

Mr. Lewis requests that I point out to you that, as long as we are drawing the analogy between U. S. Gypsum and the Hartford Empire, that what we are like here is like the infringers in the Hartford Empire case. We are just using patents; we are not using any machinery. In our case, all that is involved is patents. There is no question of machinery. We are using our own machines. We service our own machines; I am talking about this interim period, this pre-decree period; so that we are like those people in Hartford Empire who used their patents but did not use their machines.

And there were people in the Hartford Empire case who had their own machines but who were using, without paying for, Hartford Empire patents. Those are the people mentioned in 16(c) of this decree, namely, that where they have used—where they have used these patents without using any machinery, and they do not take any license, they are entitled to get this free ride.

And what we are in U. S. Gypsum, according to U. S. Gypsum's claim, is that we have been using their patents as [fol. 1940] infringers, and therefore we have to pay.

Our contention is that under the holding in the Hartford

Empire case, infringers who used only the patents and not the machinery or services had to pay nothing, and we are in that position, that what—the only thing that the Hartford Empire case permitted was a quantum meruit action specifically confined to machinery and to services, and specifically excluding, as it said in its opinion, the claim for patents.

But irrespective of that, the holding in the Hartford Empire case which has been obscured somewhat by this unique situation of a receiver having been appointed and people voluntarily paying their license fees on both patents and machinery, although that situation does not exist in U. S. Gypsum, the primary holding, the primary holding and teaching of Hartford Empire is what this court said it was, that, where there has been a misuse of patents and an industry-wide situation, and where the Government has obtained a decree, that injunctions will lie against enforcement of the patents which took place, enforcement for the use of the patents which took place before the decree.

In other words, anybody who used the patents while they were being misused in antitrust violation by the patentee has a right to continue to use them without paying for them until such time as the evil effects have been dissipated.

That primary teaching of Hartford Empire was the law and still is the law and has been applied in many cases. And [fol. 1941] the fact that fees had been paid, royalties had been paid for the use of patents voluntarily, and that gave rise to a special problem which the Supreme Court had to deal with in the second opinion, should not be allowed to obfuscate the primary teaching of Hartford Empire which this court followed, namely, that where there has been a misuse, the misuser will be enjoined from prosecuting any claim for damages or profits for the use of those patents.

That is what has happened here. We have used those patents for three years, during a period of time when the Supreme Court has held that they were being misused in furtherance of the industry-wide monopoly and restraint, and under the teaching of the Hartford Empire case and many cases which followed it. The doctrine is very clear, as this court here enunciated in its opinion, that there can be no suit for the use of those patents.

The one place where we agree with U. S. Gypsum that this court deviated from the holding or misconstrued the holding in the Hartford Empire case was in construing that opinion as saying that "We will allow a quantum meruit for the patents even though we will not allow an infringement suit."

We urge that what the court said in Hartford Empire was not that. It said that "We will allow a quantum meruit only for the services, and only for the use of the machinery."

But in view of the fact that this court held that even with quantum meruit "We will forbid it if there has been a mis-[fol. 1942] use," we found no reason to complain about what we believed was a mistake in this opinion.

The thing that amazes us is that the other side complains when it is a ruling which is prejudicial to us, because the ruling said, "We will permit quantum meruit to go ahead unless, at least, there is a misuse," and that is a ruling which is prejudicial to us rather than to U. S. Gypsum.

But, as I repeat, in some way U. S. Gypsum tries to spell out the fact that there has been a misconstruction of what the Hartford Empire case meant by quantum meruit; that, therefore, in some way, which I cannot figure, we are also—they are also not barred from the infringement action which Hartford Empire says very clearly they are barred from.

As I said, that is the first new thing which has been raised by U. S. Gypsum in this court. And we think it is wholly devoid of any availability to them. It is something which should avail us and we should be able to say to this court now that we are here, "We ask you to correct this and to say that Hartford Empire not only forbids count five but it also forbids count four, because it says that all claims for damages or profits for the use of a misused patent are to be barred."

The second and the only remaining new thing which has been raised here has been section 271 (d) of the patent law, and it is raised only as a new point in order to contravert what this court has held to be a continuing misuse.

[fol. 1943] This court has held—pardon me, if I may, your Honor, I would like to go back to Hartford Empire for just one minute because there is one additional fact in connec-

tion with the Hartford Empire first opinion, to which I would like to call your attention.

You will recall that Hartford Empire, in its first opinion, said that these license fees should be turned over to Hartford Empire by the receiver unless, since the entry of the decree, there has been some violation of the decree or some further violation of the antitrust laws. Your Honors will recall that in the first opinion in the Hartford Empire case. It said to the receiver, "You turn this money back to Hartford Empire unless there has been some violation by Hartford Empire of the decree."

In connection with that, I would like to recall to your Honors' attention that in your opinion at both pages 16 and 25, you said that "by the bringing of these suits there has been a violation of the decree;" on page 16 of your opinion, and on page 25.

On page 25, for example, "We have hereinbefore determined that they," meaning these actions, "involve violations of the decree as to the first two counts of each." And again in your Honors' opinion, you stated the same thing. "In this situation——" you said, "In this situation we determine that these two counts in all of these suits should be enjoined from further prosecution because they clearly violate the express provisions of article 4."

And you go on—I have not got the exact language here—and state that it also violates the decree, just as you did [fol. 1944] on page 25. So that, even under the Hartford Empire first opinion, which said, "Return these license fees to Hartford unless there has been a violation of the decree in the meantime," even under that the facts in U. S. Gypsum, the facts in this case bring us even within that exception, because your Honors have held twice that there has been a violation of the decree of May 15, 1951, by bringing these actions, and also in conclusion of law Number 7 you have said the same thing, so that you have brought this case clearly within the Hartford Empire case which would say, "You don't even have to pay the license fees back—you would have to pay the license fees back even though they had been paid voluntarily, because by bringing these actions you have violated the decree."

Now, passing to the section 271 (d), this is the second and only remaining doctrine which is new, which is being

submitted to this court at this time, 271 (d) was not urged in the prior briefs or in the prior argument, and we respectfully contend that it is wholly inapposite here and that it has nothing to do with this case.

Your Honors will recall that you held that the bringing of these actions was in itself a continuing misuse, and that, therefore, apart from the other kinds of misuse which have been found, that these people should be enjoined, that U.S.G. should be enjoined on all counts because of the continuing misuse down to date.

[fol. 1945] U.S.G. has cited section 271 (d) of the patent law to show that by bringing these actions there has been no misuse. Section 271 (d) of the patent law says no such thing, and has nothing to do with the kind of situation with which your Honors were dealing with here.

Section 271 (d), and we have traced the legislative history of it in our answering memorandum, was occasioned as a result of some confusion which arose after the Mercoid cases were decided by the Supreme Court. In the Mercoid cases, the situation was that a patentee had a combination patent, and that he misused that patent by making all of his licensees buy one of the components of the machinery covered by the patent, to buy them only from him. He had a competitor who was selling a similar machine to an infringer, and the patentee sued this competitor, claiming that he was a contributory infringer.

Now, he himself was a misuser, and he was suing this contributory infringer, and the court held in the Mercoid case, following the orthodox, traditional doctrine in the Hartford Empire case, that "Because you are misusing your patent, you cannot bring this contributory infringement case." And in the course of the opinion, Mr. Justice Douglas raised the query as to what is left to the doctrine of contributory infringement, and the writers at the patent bar, seizing upon this dictum, began to raise some doubt as to whether or not the whole doctrine of contributory infringement had been dissipated.

[fol. 1946] After much discussion at the bar, and this is all set out in the legislative findings and—in the legislative history which we have set forth in our brief—the patent bar association introduced some legislation to try to cure it and 271 (d) is the result of this legislation.

And 271 (d) is very clear in saying that anyone, any patentee who was otherwise entitled to relief, shall not be deemed to be a misuser solely by the fact that he brought or will bring a contributory infringement action.

In the first place, he must be otherwise entitled to relief, and if he is, the fact that he brings an infringement action, says 271 (d), will not, ipso facto, make him a misuser of the patent. I think that is very sound, and I think that is a salutary rule, but it has nothing to do with what is happening in this case.

What your Honors held was not that the infringement action, it was not that the infringement action is what constituted a misuse, what your Honors held was that the continuing misuse was bringing the action on the illegal license agreements. That that was the misuse, that these license agreements had been held to be null and void, they had been adjudicated to be null and void, and that these plaintiffs, U. S. Gypsum, who in spite of that holding after all of this litigation, said, "in spite of the fact that these have been held to be null and void, we are going to bring action on them anyway," contending that they were still [fol. 1947] legal; your Honors have held, and I submit properly, that this was a continuing misuse.

Now, the fact that they also joined with that an action for infringement certainly cannot make the misuse legal. What 271 (d) says was that if you are otherwise entitled to recover, if you had a valid license agreement and you are entitled to recover under that, the fact that you bring a contributory infringement action should not, per se, make you a misuser. That is perfectly sound. But it does not give rise to the converse, that if you are a misuser by reason of the fact that you are suing on illegal license agreements, which is what this court held, that the mere fact that you add to that an infringement action, immediately absolves you from all the misuse which you committed by bringing counts one and two. This is a complete non sequitur.

In other words, they committed the misuse when they alleged count one and count two. Now, the mere fact that they go further and allege counts three and four and then count five, which happens to be an infringement action, does not permit them to take advantage of the Statute which

says the mere fact that you bring an infringement action does not makes you a misuser.

What made them a misuser here, right down to date, according to your Honors' opinion, was not the infringement action, but the action under counts one and two, which were absolutely void and null and illegal. So that citing 271 (d) avails them nothing because they are misusers here under your Honors' opinion, not because of the infringe-
[fol. 1948] ment suit but because of counts one and two.

Now, in their letters to your Honors——

Judge Cole: Is the legislative history mentioned in this proceeding at all?

Mr. Rosenman: The legislative proceeding is set forth.

Judge Cole: I know. Is there any mention of this proceeding at all in the legislative history?

Mr. Rosenman: U. S. Gypsum, no sir.

Judge Cole: Not before the committees of Congress or any place else?

Mr. Rosenman: No, sir, not that I recall.

Mr. Lewis: We found no reference to it, if your Honor please, to this case.

Judge Cole: Yet it was dated January '53, was it not?

Mr. Rosenman: 'Fifty three, yes, sir. There was no reference to this case, and I don't think that there would be because, in this case, the misuse was not the bringing of the infringement action. As I say, 271 (d) really had nothing to do with this case. It was not the bringing the infringement action which was the misuse here, and besides, at this time, your Honors had not yet written your opinion, pointing out that this was a continuing misuse.

Judge Cole: I can appreciate why it would not be in the legislative history, and yet, having experience with it myself, it is violated the other way very frequently.

[fol. 1949] Mr. Rosenman: Yes, so far as I recall, U. S. Gypsum was not mentioned in the legislative history. This was occasioned by the Mercoid case and by a case which followed the Mercoid case, in which we—and which we mentioned in our brief, the Stroco Products case, which followed Judge Douglas' dictum and said "we won't permit this contributory infringement case."

This was a lower court opinion and, as a result of this, the patent bar association, fearing the law was taking a

turn where infringement cases would be completely outlawed had 271 (d) introduced with a complete revision of the patent law, and it was passed, but it is very clear from the legislative history and from the debates and from the hearings which we quote from in our memorandum, that it was a result of the Mercoid case, and it involved only the contributory infringement suit, and how that has anything to do with what your Honors have held, namely, that an action on an adjudged illegal contract is a misuse, I cannot possibly see.

And certainly this Cole case which they mentioned in their letter to you has nothing to do with it because, in the Cole case, they held there was no misuse by bringing an infringement action because, as the opinion said, there was no monopoly, there was no attempt by Cole—by Hughes, to do any monopolization, but when you come to read that case, you will see that it refers to an earlier case, Kobe against Dempsey, in 198 Federal (2d) 416, in which the court said that law suits had been brought for the sole purpose of [fol. 1950] monopolization of patents, and, therefore, they themselves would be held to be misused because the suits were brought for that purpose. But the Cole case, which is cited by U. S. Gypsum in its letter to you is no authority for the proposition that the mere fact that you add an infringement suit to a suit on an illegal contract absolves you from the misuse which arises from the fact that you have brought your suit on an illegal contract.

I would like to say one or two words, if your Honors please, on the whole subject of quantum meruit, the claims which I think are still confused in U. S. Gypsum's mind involved in counts three and four.

And here, too, what I am saying has nothing to do with your Honors' basic decision, which I repeat is unassailable, that there has been a misuse here and the misuse, as a matter of law, could not be purged before the decree of 1951.

Judge Worley: May I ask you a question there, please? Whether misuse is present is always a question of fact, is it not?

Mr. Rosenman: Yes, sir.

Judge Worley: Whether a patentee misuses?

Mr. Rosenman: Yes, sir.

Judge Worley: And whether he has purged himself of that misuse is likewise a question of fact, is it not?

Mr. Rosenman: Yes, sir.

Judge Worley: Normally, how is that proved, whether [fol. 1951] one has purged himself from abuse or misuse of a patent?

Mr. Rosenman: Well, I think the test is, is not only what the man himself has done about the purge. I think the test is, "Have your affirmative actions, have affirmative actions been taken to dissipate all of the evil effects of the restraint?"

[fol. 1952] Judge Worley: How do you determine the presence or absence of affirmative actions, by what process?

Mr. Rosenman: Well, I would say that in this case it is taken by compliance with the decree of 1951, by the May 15, 1951 compliance.

Judge Worley: The patentee has to prove compliance with the decree.

Mr. Rosenman: That is right.

Judge Worley: By affirmative evidence.

Mr. Rosenman: That is right.

Judge Worley: How is that done?

Mr. Rosenman: Well, he would show, for example, in this decree, he would show that the licenses which he has offered comply with the decree. He would show that all of the injunctive provisions of the decree have been complied with. And I think that would establish a purge.

Judge Worley: On his own motion before what tribunal? Before a District Court, the Supreme Court, or where?

Mr. Rosenman: I think he would do it before this kind of a tribunal, for example, or he would do it, I think it could come up in a number of ways. He issues a license and he sues on a license; if there is a defense he might come and try to get a declaratory judgment. I don't know of any such situations, but he would have to show and I should think the burden of proof would be on him that there has been complete compliance with the final decree of the court, and [fol. 1953] I am repeating myself. I think what this court held was that U. S. Gypsum cannot possibly show, no matter what it produces, compliance with the decree of May 15, 1951 before May 15, 1951.

Judge Worley: What about 1949?

Mr. Rosenman: The 1949 compliance with that decree would not be sufficient, because the Supreme Court held that that decree did not adequately open up this industry.

Judge Worley: As a matter of law, their proffer of proof was insufficient.

Mr. Rosenman: Their proffer of proof——

Judge Worley: Is that correct?

Mr. Rosenman: Their proffer of proof——

Judge Worley: Assuming that to be true, assuming what they offered to prove would be true, then what I understand the Supreme Court held as a matter of law, even that would be insufficient to constitute a purge; is that correct?

Mr. Rosenman: I don't think they were talking about purge then. I think the proffer of proof was to show there was no misuse.

Judge Worley: Misuse, yes; I am sorry, that is correct.

Mr. Rosenman. That was the proffer of proof and the Supreme Court said even if accepting the underlying facts there are still operative facts which would show that even if you prove what you proffered, even if you prove that, there are some things you cannot prove because the rec-
[fol. 1954] ord is very clearly against you, but even if you prove what you say, still there are operative facts here which would militate against you. Therefore, we are not going to permit a trial, but we will grant summary judgment.

Judge Worley: Now, suppose they did not offer all the proof they had to show that they had not misused it.

Mr. Roseman: Suppose they—I am not quite clear.

Judge Worley: They just offered—the proffer of proof did not include everything they could have shown or proved to cause the Supreme Court to reverse itself in that particular respect.

Mr. Rosenman: What the Supreme Court said, I think, was that no matter what you proffer, take your own proffer of proof or take anything else that you would offer and place them alongside of the uncontrovertible facts here which are in the record, namely your license agreements and everything else that I went over this morning, laying those two things side by side, "we say that the uncontro-

vertible proof would show that you are guilty of the conspiracy which the Government alleges."

They were then talking about the conspiracy, the restraint, the misuse.

Now, I say that what this court has held, and properly, that everything which has been mentioned here orally and everything which is mentioned in U.S.G.'s brief, if they were offered as proof before this court to show purge, that they could not possibly show a purge because they could not pos- [fol. 1955] sibly show any compliance with the final Supreme Court's decree, which was the only thing that opened up this industry to competition, and the only thing which dissipated the evil effects of the restraint and monopoly.

Judge Worley: Then there is no way in the world that they could have proved by their——

Mr. Rosenman: Before 1951?

Judge Worley: Well, 1949, I was talking about particularly.

Mr. Rosenman: Well, I think if they had gone—if what they had done in '49 had been to comply with everything which was stated in '51, if they could show that, but they make no pretence that they can show that in 1949 everything which the Supreme Court directed this court to find in '51 had been complied with two years earlier, and if they say merely, as they said this morning, that "We complied with the decree of 1949," that is not enough. The Supreme Court said that is not enough. That does not open up this industry the way it should be opened in order to create a purge.

I don't know whether I have attempted to answer you——

Judge Worley: You have, thank you.

Mr. Rosenman: Just a word about quantum meruit because they are apparently still contending that in some way, in spite of the misuse, they are entitled to a quantum meruit action.

This court has held, and I think correctly, and it is a holding which is unassailable, and it is based upon a long [fol. 1956] line of cases which I have adverted to a number of times, that where there has been a misuse there can be no form of action which covers the misused period.

Now, they claim, they still claim, however, that a quantum meruit in some way is possible. I would like to point out first that a quantum meruit for infringement of patent is an unheard of doctrine. There is no such thing.

A patent, patent rights are given by statute. If there is an infringement you sue for infringement. If there is an infringement, it is a tort, and you sue in a tort, and there is no such thing as a quantum meruit action for an infringement. We pointed that out in our original brief. We have elaborated on it in Appendix A in our present brief. The cases are legion. There is an infringement you sue in tort; you sue for infringement the way the statute gives you a right to.

The statute gives you treble damages in some cases, but you sue pursuant to the statute.

You cannot sue in quantum meruit which has its basis in a contract, a contract either in law or in fact. We contend there is no such animal, and that therefore, on infringement, you cannot sue for a quantum meruit.

Now, we claim that here they cannot sue on any quantum meruit based on an agreement implied and in fact, and we point that out for a number of reasons.

In the first place, your Honors have said they misused [fol. 1957] these patents and that would bar them and think that is dispositive of this whole thing, and that is what I meant when I said this morning this is a basic finding, there has been a misuse, an unpublished misuse, and, therefore, you can have no cause of action, even quantum meruit. But there are subsidiary reasons for that which are secondary.

The first thing is, in order to have an implied agreement, implied in fact on which you will sue on a quantum meruit, you cannot also have an express agreement. In other words, if you and I have an express agreement among us, between us, we cannot sue in quantum meruit. We sue in the express agreement, unless there is something wrong with the express agreement, that something wrong might be that it is illegal. If it is, then under a long line of cases, it is barred.

If it is not illegal, maybe it was rescinded, and if it is rescinded, then maybe we can sue on a quantum meruit.

Now, with respect to rescission, your Honors have held very forcibly, and I think very correctly, that they cannot

prove a rescission. That they never acquiesced in any repudiation for reasons which I have read in your finding 22 (b), there could not have been any rescission.

Therefore, this express agreement apparently still continued. It never was rescinded and, therefore, you could not have a quantum meruit implied in fact.

But there is another very compelling reason as to [fol. 1958] why they cannot bring an action in quantum meruit on an agreement implied in fact.

Article 4 of the decree, the final decree, which declared all of these license agreements null and void, went further and said not only the license agreements are null and void, but all supplements and amendments are null and void, and your Honors will recall what we pointed out on page 36 of our main brief here, that when it came to framing the decree, on page 36 of our main brief, there was a colloquy with Judge Bromley's partner as to whether or not there were any other agreements, because if there were any other agreements, the Government wanted to put them in the decree. And Mr. Connelly stated, on page 36, it can be certified that those are the only agreements in effect between the parties.

Now, here they allege that there was another agreement, an agreement implied in fact and, as a matter of fact, Mr. Connelly consented to adding to the list of license agreements over on page 37 the phrase, "and any supplement or amendment to any of said patent license agreements."

And he went further and said, "With that addition, the list is obviously all inclusive, and the certification requested may properly be named, namely, the certification that there are no other agreements that we have to worry about."

How can they say that to the court in framing the decree and say today that there was another agreement? We [fol. 1959] rescinded the old invalid agreements in 1948, and we made these new agreements which were now sued on; they are implied in fact. And certainly with respect to count three, which your Honors have designated as an indebitatus assumpsit on an express agreement, certainly that would be included in the same ban. And they are estopped, I should urge, as we did in our last argument, from insisting that there was an agreement implied in fact,

they are estopped by the fact that here they said to this court, "There are no such agreements, so it is not necessary to put any other agreements in the decree."

Now it is hard to tell whether counts three and four are urged by them as agreements implied in law. I can point to statements on both sides. Your Honors, I think, have construed these conflicting statements as meaning that Number 3, count Number 3, is an indebitatus assumpsit on an express contract, and that count Number 4 is one implied in law.

Is a quantum meruit count in law, unjust enrichment, an obligation implied in law? I don't know whether U.S.G. agrees with that, I am not quite clear as to what they count count 4 to be, but if it is implied in fact, for the reasons which I have mentioned, they cannot urge it.

If it is implied in law, then we think also it cannot possibly be urged for the same reason, namely, that in the first place there was misuse which your Honors have referred to, which was never purged. In the second place, here, too, [fol. 1960] there would have to be a rescission of the express agreement in order to have an agreement implied in law. We would have to get rid of the express agreement, and your Honors have held in your opinion, clearly in finding of fact 22, that there was no such rescission.

Now if, in fact, it was rescinded, then we say the only possible remedy that they would have would not be in quantum meruit, because there is no such thing for the infringement of a patent, but only a remedy for a suit for infringement, which would be barred by the misuse.

And, therefore, under these doctrines, which were urged and argued before your Honors 15 months ago, we believe that there can be no cause of action on any implied agreement in fact or in law. We believe there can be no action on the infringement in quantum meruit. We believe that counts one and two are barred almost as a matter of "hornbook law," and that under the misuse doctrine all of these actions are barred; that your Honors' basic ruling was correct, and that the basic amendment which your Honors made to the decree, is unassailable; that all of these causes of actions should be enjoined.

Judge Stone: Mr. Miller?

ARGUMENT ON BEHALF OF CERTAIN-TEED PRODUCTS CORPORATION

By Mr. Miller:

Mr. Miller: My name is Norman Miller, representing Certain-teed. I had intended to speak for about 15 or 20 minutes. However, I believe that I will shorten that period [fol. 1961] considerably because Judge Rosenman has ably and completely presented all the matters upon which I had intended to be heard.

I just want to make one additional comment supplementing the argument that Judge Rosenman made with reference to the question of quantum meruit, and that it would not lie for the use of a patent.

As Judge Rosenman pointed out, that was covered quite fully in the Appendix A in the statement of National and Certain-teed in opposition to U.S.G.'s motion for a new trial.

A reply brief which was filed by U.S.G. to that statement in opposition attempted to distinguish the cases which we had cited and I think those cases that they cited demonstrate on their face the soundness of our view, because those cases hold that you may waive the tort in your suit for infringement and sue on the contract.

Now, in order for them to rely on that position, they would have to sue all over again on the contracts which this court has held twice to be illegal, null and void, as directed by the opinions of the Supreme Court. There is no answer to the cases which we cite, that infringement, patent infringement, is a tort. It is a statutory remedy; your only action, your only right of action, is to sue for that tort or in the alternative you have one other remedy—you may sue on the contract under which you granted a license.

Now, that remedy is obviously unavailable to them. Even [fol. 1962] the Government has agreed that, as to counts one and two, which is the suit on the original contract, they have no standing in this court and, as I read Judge Cole's dissent, I believe if the case were limited solely to counts one and two, he would have had no trouble finding that this court had jurisdiction.

In my opinion, the citation of these cases practically puts the quantum meruit count, count 4, back into the same

category as counts one and two, and I believe Judge Rosenman has ably discussed the implied—or the nature of the claim as being implied either in law or in fact, not made clear by U.S.G., and requiring that you either tie it into the original license agreement or you tie it into a rescission of the license agreement which this court has found did not occur.

The only other alternative is to say that the parties entered into a new license agreement with reference to this same patent, and, as to that, the vice was ably demonstrated by Judge Rosenman. Then you are in violation of article 4 of the final decree because then you have an amendment or a supplement to the illegal license agreement which this court struck down.

I believe——

Judge Cole: Would it be correct to say, in your argument, if you are required to meet this litigation as to counts three and four that you could defeat both of them by a demurrer alone?

Mr. Miller: I would say, if your Honor please, that as a matter of law, and I believe the demurrer——

[fol. 1963] Judge Cole: Without any reference to the facts in this case whatsoever, that a demurrer would throw it out?

Mr. Miller: A demurrer based upon what is in the record in this case?

Judge Cole: Yes.

Mr. Miller: Should be sustained.

Judge Cole: I see. All right.

Mr. Miller: I thank you.

Argument on Behalf of Newark Plaster Company

By Mr. DeWitt:

Mr. DeWitt: My name is Benjamin P. DeWitt. I appear for the petitioner, Newark Plaster Company.

At the outset, and as a sort of text for what I have to say, may I call the attention of the court to a portion of its opinion. At page 34, the bottom of the page, the court said, "In each of the present U. S. G. suits, counts one and two are expressly based on the old license agreements and

seek to recover the royalties provided therein in the amounts provided for and measured by those agreements.

"Counts three and four are respectively actions of indebitatus assumpsit and quantum meruit, posed on the same underlying factual situation created by the license agreements. The amount sought in each of those two counts is precisely the same as stated in counts one and two.

"In count three, the amount is measured as in the agreements.

[fol. 1964] "Count five, also count six, in Newark and Ebsary suits is for infringement based on deliberate infringement and praying for a recovery in the amount 'not less than a reasonable royalty,' which exactly equals the amount measured by the unlawful agreements.

"We think this course of conduct as clearly shown by the proceedings of record in the antitrust case and in these suits by U.S.G., must be construed as meaning that U.S.G. has continued to misuse its patents by seeking recovery directly and indirectly on the illegal license agreements up to this time."

Judge Worley: Are you still using these licenses?

Mr. DeWitt: Pardon, sir?

Judge Worley: Are you still a licensee under these original patents?

Mr. DeWitt: We are not, sir.

Judge Worley: You are not. I understood neither you nor Ebsary——

Mr. DeWitt: Neither Ebsary or Newark is a licensee of U.S.G.

Judge Worley: You are not still using those patents?

Mr DeWitt: We are not, sir.

May I further call the court's attention to the language of its opinion on page 38, about a little above the middle of the page, "The U.S.G. suits now pending show conclusively that even it," meaning U. S. Gypsum, "is striving to enforce the royalty provisions of the illegal patent license agreements. We think such an attempt is clear misuse of its patents, that such misuse yet continues, and that to allow prosecution of [fol. 1965] these suits would weaken the effectiveness of the final decree."

Now, it appears from that language that there were two things which the court had in mind in holding that U.S.G.

should not be permitted to prosecute these various actions. One of them was, in a sense, negative, to the effect that U.S.G. had failed to establish a purge of its misuse. The other was affirmative in that U.S.G. has continued its misuse down to the very date on which it commenced these various actions.

Speaking for Newark, we rely, of course, upon both of these elements. We endorse everything which Judge Rosenman has said on behalf of National, and what he was said also with regard to the continued misuse, but inasmuch as Newark did not take out a license on May 15, 1951, when the final decree was made, Newark and also Ebsary are in a somewhat different situation from that in which National and Certain-teed find themselves, and what I propose to do, with the court's permission, is to show that this continued misuse by U.S.G., by insisting despite this court's clear finding that these agreements were illegal, null and void, in bringing these actions constitutes a bar to these actions against Newark and Ebsary.

Now, something was said here about what the intent of your Honor's predecessors in this court was at the time the decree was formulated back in 1949.

I was present in court and participated in the discussion [fol. 1966] of the form of that decree, and I think there is very little difficulty in finding out what the intent was at that time. U.S.G. argued strenuously that all that the decree should do was to cancel the existing license agreements. The Government insisted that the decree should contain a provision to the effect that these license agreements were illegal, null and void.

Now, at that time, Newark submitted to the court a memorandum with respect to this very provision, and U.S.G., in a memorandum, commented upon the provisions in the Newark memorandum. U.S.G. said, in effect, that Newark, in advocating that this provision be inserted in the final decree, was trying to prevent U.S.G. from recovering royalties under these license agreements.

Now, obviously counsel for the Government understood that that would be the effect, but more important, U.S.G. understood that that would be the effect—that by reason of this provision that these agreements were illegal, null and

void, they would not be permitted to recover any royalties under those agreements.

Now, despite that, they bring these actions in which they assert the right to recover royalties under these very license agreements which this court has held illegal, null and void, and which this court obviously knew when it declared them illegal, null and void, would mean that U.S.G. could not recover royalties.

Now, we are told that the only reason that U.S.G. included counts one and two in these actions was for the purpose of preventing the defendants, in opposing the suits, from claiming that there could be no infringement because [fol. 1967] they had license agreements. There has been no suggestion, of course, on the part of any defendant that that defense would be interposed, but that is not the real attitude of U.S.G. in bringing those two—in including those two counts, because, as we have already pointed out, U.S.G. has contended, even before this court, that the provision that these license agreements were illegal, null and void, did not really mean what it said, it did not mean that they were inherently illegal or improper.

Thus, in one of their briefs they say that while they acknowledge the court struck down the license agreements, they maintained the court did not strike the contract because it was inherently illegal or improper.

Again, in one of their briefs they say a reference to a few of the items contained in the proof filed on June 15, 1948, will readily show that "the adjudication of law violation was not by reason of any inherent illegality in the terms of the contract here sued on or the operations thereunder."

Now, that all adds up to an insistence up to the present time by U.S.G. that they have a right, an absolute right, to recover royalties under license agreements which this court has held illegal, null and void, and which this court, in holding illegal, null and void, intended to prevent any recovery of those royalties.

We claim that to do that is to do two things: First of all, [fol. 1968] it is to misuse the patents, it is a continuing misuse of the patents, and I go beyond that and I say that it is a flagrant disregard of this court's decree, amounting, in my opinion, to something approaching a contempt of this

court, because what they are doing is telling a District Court in New Jersey that these license agreements are valid, that they have a right to recover royalties under those license agreements while this court, by its decree of May 15, 1951, held exactly the contrary.

Now, because they—this constitutes a misuse, apart from anything else, it seems to me it prevents U.S.G. from having any recovery on its patents.

Moreover, because it constitutes a flagrant disregard of this court's decree, it seems to me, it calls for the interposition of this court to prevent U.S.G. from thus attacking in other jurisdictions the decree of this court.

You cannot have these agreements valid in Newark and in New York and in Iowa, and invalid in Washington.

Now, if we find that to insist, despite the court——

Judge Cole: In the suit against your company, the period covered is beyond 1951. It runs into the time of filing the suit, does it not?

Mr. DeWitt: I propose to come to that, and I will be glad to come to it right now.

Judge Cole: That is correct, is it?

Mr. DeWitt: That is right, sir.

[fol. 1969] Judge Cole: So there is no license existing between you at that time, '51-'53?

Mr. DeWitt: The situation so far as Newark, and this is true also of Ebsary, is concerned is this: On May 15, 1951, we did not take a license.

Judge Cole: That is what I understand.

Mr. DeWitt: We paid no royalties up to May 15, 1951, and we have paid no royalties since. We are now sued, Newark, in Newark, New Jersey, and Ebsary, in New York, for license fees for royalties, not only up to May 15, 1951, but also up to the date of the commencement of these actions.

In that regard, as I said at the outset, our situation is different from the situation of National and Certain-teed, who are sued for royalties only up to May 15, 1951, when they took out licenses in the form prescribed by the court in the final decree.

Now, so far as the period up to May 15, 1951 is concerned, we are in the, exactly the same situation as are National and Certain-teed and everything that Judge Rosenman

and Mr. Miller have said with regard to National and Certain-teed we endorce and adopt with respect to Newark and Ebsary up to May 15, 1951, but we have a burden beyond that in that we paid no royalties from May 15, 1951 to the date of the commencement of these actions.

Judge Cole: If I may interrupt you at that point to ask if between '51 and '53, if you had been enjoying the same [fol. 1970] patent rights and use of the product as you did prior to '51.

Mr. DeWitt: The answer—their answer is, no, we have not been enjoying the same patent rights.

Judge Cole: Wherein has the relationship between your company and U. S. G. differed?

Mr. DeWitt: While, with all respect to your Honor, I think it is extraneous, I will be glad to explain our position.

As Mr. Spray stated in his argument, I did——

Judge Cole: While it may be extraneous, what I have in mind is that—am I correct in also leaving this with you for comment?—if this proceeding, if they are restrained in this proceeding in Newark, means you go on forever as you are now without any payment whatsoever; is that correct?

Mr. DeWitt: No, your Honor, that is not our position.

Judge Cole: Without a license?

Mr. DeWitt: That is not our position.

Judge Cole: All right, then you correct it.

Judge Worley: Well, are the same patents involved now as prior to 1951?

Mr. DeWitt: Our position is this, and I want to meet you fully, Judge: Newark developed in American Cyanamid Company a new process and our claim is that even back in 1948, in this interim period, we discontinued making any use of these patents, so that when 1951 came we did not take out a license under these patents because we were advised by patent counsel that our patents did not infringe, [fol. 1971] that they constituted a different process, and therefore we had no reason to pay any royalties.

I adverted to that in a former appearance here; Mr. Spray commented on it this morning. In other words, in an action in Newark against Newark, we would have the de-

fense of non-use. That would be one defense. But that does not distinguish our situation, if the court please, from the situation of either National or Certain-teed.

They both actually have alleged in their defenses non-use, that is one of their defenses. We have not yet put in an answer in our suits, and all we have done is to indicate that if we do put in an answer, one of the defenses will be the defense of non-use.

Now, your Honor asks whether our position is that we could go on forever using U. S. G. patents without paying any royalties. My answer to that is certainly not, but we are not dealing here with that question, if the court please. We are dealing here with an attempt by U. S. G. to collect directly and indirectly, as this court has found, royalties under the very agreements which this court has held illegal, null and void.

Now, we would not claim that if that question were not involved we would have a right to continue to use patents indefinitely, but that question is involved. That is the crux of this whole case, as we see it, and as this court has pointed out. While they call the third count indebitatus assumpsit and the fourth count quantum meruit, and the [fol. 1972] fifth and sixth counts infringement, what they are doing is trying to recover directly and indirectly under license agreements which this court has declared illegal, null and void.

Now, this court, it is for this court to sustain its own decree. Our position is that this court cannot stand idly by and allow U. S. G. to assert in various parts of the United States, as a basis for recovering royalties, the agreements which this court has condemned are in fact valid. That is our position. This court is protecting, defending, enforcing, and validating its own decree; that is our position.

Now, what the situation would be if that element were not involved, is not germane to this discussion. Certainly, if we had been sued in Newark in an action which bore no reference whatever to these illegal license agreements, we would not be here asking your Honors to enforce youdecree. We would be defending in Newark.

We are here because we are asking this court to enforce its decree, so the answer to your Honor's question is, cer-

tainly we do not claim that we have a right to use anybody's patents indefinitely, and if we are sued for the use of patents or in ay other connection which does not involve a violation of this court's decree, we certainly would not come here, but the essence of this, as this court itself has found, and as I have just read, is that this misuse continues down to this very day. They say today that these agree- [fol. 1973] ments are not inherently illegal, that the court really meant to strike out the price-fixing provisions. Read their briefs. They say it in a half dozen different ways. They don't accept, even down to the writing of these briefs, they do not accept this court's decree.

Judge Worley: You think that is misuse——

Mr. DeWitt: I say that that is misuse.

Judge Worley: It is continuing misuse.

Mr. DeWitt: That it is a continuing misuse and, as I said before, it verges on a contempt of this court.

Judge Worley: Don't they have a right to question a petition as they have done here?

Mr. DeWitt: Pardon, sir?

Judge Worley: Don't they have a right to do as they have done here without that constituting a continuing misuse? Supposing we find ourselves in error in what we have done so far——

Mr. DeWitt: Our position, of course, is that your Honors are not in error. And our position, further, is that nothing has been said today which, in our opinion, would indicate in the slightest degree that your Honors have been in error.

We think that Judge Rosenman has established with complete clarity that there could have been no purge in any case prior to May 15, 1951. I need not review his arguments.

Now, he goes further and we go further, but we naturally emphasize it to a greater degree because it affects the [fol. 1974] period after May 15, as well as the period before, and we say that there has been a continuing misuse.

Now, that does not require any testimony. There is no amount of testimony can change the fact that, in all of these suits, they have deliberately tried to recover on void license agreements.

Judge Worley: Of course, they take the position they are not void.

Mr. DeWitt: But this court has solemnly pronounced them void.

Judge Worley: That is true, but we are not the last answer. It is the Supreme Court, is it not? Would they be——

Mr. DeWitt: The Supreme Court, sir, has affirmed that decree?

Judge Worley: I assumed an appeal will go from here to the Supreme Court.

Mr. DeWitt: That is correct.

Judge Worley: Would there be any continuing misuse?

Mr. DeWitt: If I understand your Honor's question, it is whether, on an appeal from this court's decision, the Supreme Court might possibly hold that these license agreements were not illegal, null and void. I say that matter is closed. The Supreme Court will not review that, in my opinion. The Supreme Court has already reviewed that. The Supreme Court has said, of the 1949 decree, which was the decree in which this provision first appeared, they affirmed that decree but broadened it; in other words, they [fol. 1975] adopted that provision of that decree.

Now, I do not believe that the Supreme Court, on an appeal in this case, is going to reconsider that decree of 1949 or the decree of 1951.

Judge Worley: I agree with you. I doubt if they do.

Mr. DeWitt: I can't see how they would do it.

Judge Worley: But, suppose on some other grounds they were to hold that U. S. G. is correct and should be allowed to collect on quantum meruit or some other theory.

Mr. DeWitt: Let's start with the assumption that the Supreme Court will not modify the provision in the final decree to the effect that these agreements are illegal, null and void. Let us start with that.

Now, starting with that, it follows on the undisputed evidence that U. S. G., despite that provision, asserts in several courts of the country that those very license agreements are valid and enforcible, and tries to recover royalties under them.

I say that that constitutes a misuse, a continuing misuse

of those patents, and, as a continuing misuse of those patents, it bars U. S. G. from recovering.

Judge Worley: Perhaps I don't make myself clear; perhaps I am not clear in my own mind what I am trying to say, but as I see it, U. S. G. is availing itself of its constitutional rights. We are not the court of last resort here. It will go to the Supreme Court. Now, it is hard for me to [fol. 1976] reconcile that position with your position that they were continuing to misuse so long as they question the accuracy or the wisdom or the correctness of the decision we have handed down, but that is your position, is it not?

Mr. DeWitt: I don't think, sir, that even U. S. G. will argue here that they will try to reverse the provision in the final decree of May 15, 1951, to the effect that these agreements are illegal, null and void.

Judge Worley: Well, I don't know. They might.

Mr. DeWitt: Perhaps your Honor would like to ask them. I doubt very much whether they would seriously go so far as to assert any such claim in the Supreme Court.

Judge Worley: What I was wondering particularly, where does your theory stop, when would they stop misusing, the continual misuse, assuming they are continuing?

Mr. DeWitt: Without wishing to be facetious, when they stop misusing it.

Judge Worley: Now, when would that be?

Mr. DeWitt: In other words——

Judge Worley: After the Supreme Court has finally passed on it?

Mr. DeWitt: I think the simple way, the very simple way for them to evidence an abandonment of misuse would be to discontinue all of these actions.

Judge Worley: You mean drop this suit?

[fol. 1977] Mr. DeWitt: No, drop the actions against Newark.

Judge Worley: Drop all actions?

Mr. DeWitt: Against Newark, Ebsary, National and Certain-teed, but I don't see— You might say, when is the criminal going to reform, and, I apologize for the suggestion, when he stops committing crime. When they stop misusing the patents.

As I say, if they never brought these suits, then we would not be here complaining about a misuse.

Judge Worley: But you take the position that so long as they continue to sue you they are misusing their patents, is that correct?

Mr. DeWitt: So long as they continue to sue us directly and indirectly to recover royalties or the equivalent.

Judge Worley: On contracts which have already been declared unlawful and illegal.

Mr. DeWitt: Under agreement which this court has solemnly declared illegal, null and void, with the approval of the Supreme Court. So long as they do that they are misusing these patents, that is our position.

When they stop it, if they don't do anything of the same kind, they will have stopped misusing the patents.

Judge Worley: Although this court has told them to stop it?

Mr. DeWitt: Pardon?

Judge Worley: They question the wisdom or the accuracy of our decision in that respect.

[fol. 1978] Mr. DeWitt: They don't question, as I understand it, the accuracy of the decision——

Judge Worley: They question——

Mr. DeWitt: —which says that the agreements are illegal, null and void. We start with that. I think everybody must start with that.

Judge Worley: Well, I am sorry to take such time. We are back where we started from.

Mr. DeWitt: They have a perfect right, of course, to come in here and make any argument they can to show they have not misused these patents, but they say, "When we sued on these illegal license agreements, all we meant to do was to foreclose a defense based upon those agreements; that is what they say now.

But if you look in the briefs, in their briefs, you will find that that is not their true position. They are still contending that those license agreements are not void, that they are valid; they have a right to enforce them.

It seems to me that that—It is perfectly apparent—that that constitutes a misuse of those patents. Now, they say it does not constitute a misuse, and their explanation is what I have just indicated. They say we just put them in as a kind of filler.

But I do not think that explanation is sound, and it is inconsistent with the arguments in their own briefs.

Now, proceeding from that, proceeding from the contention that the effort to recover royalties under these illegal [fol. 1979] agreements constitutes a misuse, then we proceed to the rest of this court's finding, namely, that what U.S.G. is trying to do under these other counts is, as the court said with reference to one of them, a left-handed way of trying to collect under the license agreement counts in debitatus assumpsit, quantum meruit, infringement, the whole thing hangs together.

They are trying to recover royalties in one way or another, on one theory or another, under illegal license agreements, and that, we say, constitutes a misuse, which bars a recovery.

Judge Cole: Does your company have its own machinery?

Mr. DeWitt: Oh, yes; we have our own machinery, our own plant, and we don't use any services of United States Gypsum. We are entirely independent in that respect.

Now, the court, in its opinion, made something of the fact that Newark has set up or intends to set up, rather, since we have not put an answer in, intends to set up as a defense, non-use.

I want to point out we are in the same situation in that regard as the other defendants. The other defendants, Certain-teed and National, have actually set that up as a defense, and just as this court held that did not mean that the suits against them should not be barred, so it would seem to me that it would follow that U.S.G.'s suit should be barred against us, despite the fact that if we put in an answer we might put in a defense.

As a matter of fact, I don't thing this court is concerned [fol. 1980] with the defenses that we might or might not interpose. I think this court is concerned with the question as to whether U.S.G. has misused its patents, is in violation of this decree. Having found that, it seems to me this court, in enforcing, validating its decree, should enjoin these suits.

I don't think it is necessary to add much, if anything, to the argument which has already been made, that if U.S.G.

cannot recover under the first two counts, it should not be permitted to recover under the other counts.

So far as quantum meruit is concerned, there is the argument which Judge Rosenman has advanced, that it does not lie for use of patents, but the Supreme Court has held in Bruce's Juices that where the transaction itself is illegal and you cannot recover on the contract itself, you cannot recover on quantum meruit in connection with the same transaction. So that it follows that, if this court finds that there is misuse it should bar U.S.G. from seeking to recover these royalties, not only under the license agreements on which counts one and two are based, but on quantum meruit because that is the same transaction, apart from the fact that you do not recover under quantum meruit for patent royalties. Indebitatus assumpsit is the same thing with a little elegant Latin language on infringement.

So our position is that this second ground for preventing these actions, namely, that the misuse continues to this day by reason of these suits, is available to Newark and Ebsary with respect to the period from May 15, 1951 to date, and [fol. 1981] until U.S.G. abandons that position.

Now, as I said at the outset, that is important for Newark and Ebsary are involved in this post-decree interim.

But if misuse in the form of an attempt to recover on these patent licenses prevents a recovery with respect to a period before May 15, it obviously would prevent a recovery after May 15. If it is a bar it is a bar, as long as it exists and certainly that misuse, the continued insistence upon the right to recover royalties under these provisions, that misuse continues right down to this very day.

Judge Worley: I misunderstood you. Apparently I thought neither your company nor Ebsary were using any of the patents that belonged to U.S.G.

Mr. DeWitt: That is right, sir.

Judge Worley: Since 1951.

Mr. DeWitt: They are suing us, nevertheless. They claim we are.

Judge Worley: I see.

Mr. DeWitt: They claim we are.

Judge Worley: But not under these—I see.

Mr. DeWitt: Yes. They claim royalties under these very

license agreements. They are suing us for royalties under these license agreements. One answer is, of course, we are not using their patents, but that is the answer of National and Certain-teed that is a defense we would have to set up. [fol. 1982] But, as I see it, what defences we have is not relevant here. The question here is, are these people flagrantly violating this decree? Are they misusing these patents by trying to recover royalties under agreements which the court held void and which the court, in holding void envisaged would not permit them to recover those royalties, as everybody knew at the time.

So that, with respect to Newark and Ebsary, we say up to May 15, 1951, the action for royalties against us, on any theory, is barred because there was a failure to purge, negative.

After May 15, 1951, we say because there was positive misuse, which continues today in the form of insistence by U.S.G. that they have a right to recover royalties under these void agreements.

Mr. Rosenman: If your Honor please, because of the question asked the court with respect to royalties, I would like the privilege of making a minute statement about the royalties which we have paid.

National, my client National, and Certain-teed, which is Mr. Miller's client, we have paid all of the U.S.G. royalties up to the time of the Supreme Court decision of 1948, the first declaration of illegality.

We ceased paying royalties then until May 25, 1951, at which time we claimed that new license agreements were offered to us pursuant to the decree of this court directed by the Supreme Court, and we have continued to pay royalties from May 15, 1951, until the expiration of the patent [fol. 1983] which is in issue here. Therefore, U.S.G. is suing National and Certain-teed only for that period between March or April, 1948, when the Supreme Court decision came down, down to May 15, 1951, and is not suing us for any other period. Of course, as I pointed out, our defense is that during those three years there was no purge and, therefore, we are not liable for that period.

But that is the only period which is in issue between U.S.G. and my client, and Mr. Miller's client.

Judge Stone: The court will take a recess for ten minutes.

(A short recess was taken.)

[fol. 1984] ARGUMENT ON BEHALF OF EBSARY GYPSUM COMPANY

By Mr. Rippey:

Judge Stone: The petitioners have yet 20 minutes and the U. S. G. has 40 minutes. We will hear you on the petitioners' side.

Mr. Rippey: May it please the court, my name is Joseph Rippey and I am speaking for the Ebsary Gypsum Company. What has been said by previous counsel——

Judge Worley: Pardon me, what is your name?

Mr. Rippey: Joseph Rippey.

Judge Stone: What?

Mr. Rippey: R-i-p-p-e-y.

Judge Stone: Thank you.

Mr. Rippey: What has been said by previous counsel for the petitioners is equally applicable to the Ebsary Gypsum Company. The Ebsary Gypsum Company is in a similar position to the Newark Plaster Company in the respect that Ebsary did not take a new license following the decree of May 15, 1951.

Ebsary also has been sued for a period of time to the time of the filing of the complaints. There is one additional patent which is included in the Ebsary claim, and that is an improvement patent which was not specifically mentioned by number in the original patent agreements, but it was referred to by this court as an improvement patent and included under another provision of the agreements.

At the outset, I should like to say that it has been [fol. 1985] suggested by counsel for the United States Gypsum Company that it is in the interests of the public that actions of his nature be brought by the Attorney General, that is, by the Department of Justice. Of course, that is true, but anything done along that nature by the Attorney General must necessarily affect the other parties in their private rights, and where their interests are diverse it must

necessarily affect their private rights as between themselves. That is the case here.

Where the agreement, the license agreements were declared null and void, that created, as this court pointed out, a status; or it declared a status, it did not create a status. In other words, the agreements were void from the beginning. They were not merely void after the final decree of May 15, 1951.

Now, in addition to the Attorney General, other private parties can enforce public rights, and that is particularly so here where, by the final decree itself the court reserved jurisdiction of the parties for the purpose of enabling any of the parties to this decree, or any other person, firm, or corporation, to apply to the court at any time for orders, modifications, vacations or directions, as may be necessary or appropriate for the construction or carrying out of the decree, and for the enforcement of compliance therewith.

That is exactly what the petitioners are doing now. They are other parties to the decree, aside from the United States Government.

Now, the complaint brought against the Ebsary Com-
[fol. 1986] pany and the causes of action contained therein are all for one purpose; it is all one package. It is an attempt to obtain recovery of back royalties by six different methods of stating causes of action, all with the same object.

That license agreement was declared illegal, null and void, and also the misuse of the patents was adjudicated at that time. The matter right now is res judicata up to May 15, 1951, the time of the entry of the decree.

Since a status was declared from the beginning, and misuse was declared from the beginning, there has been no change in that status up to the present time; that is, up to the time of the filing of the complaints. The status existed, and there is no particular point of time when the misuse was purged; at least it was not purged at the time of the filing of the final decree.

Our contention is that that time is of no significance whatsoever; it has continued to the present by the mere fact of filing the present action against the Ebsary Com-

pany and attempting to collect under the illegal agreements on the theory of contract, on the theory of the express contract, under quantum meruit, and for patent infringement.

The royalties were paid by the Ebsary Company up to the time immediately following the Supreme Court decree. This is not a case where royalties are sought or were not paid for some time back because, up to that time, the royalties were all paid by the Ebsary Company.

[fol. 1987] Judge Cole: Was the count against Ebsary on quantum meruit, does it make any reference whatever to licensing, license agreement?

Mr. Rippey: The quantum meruit count?

Judge Cole: Yes, it is——

Mr. Rippey: It is in similar form in the other cases, your Honor. The quantum meruit claim is the same. I don't believe it mentions it.

Judge Cole: From the period between '51 and '53, does it say anything about a contractual relationship at all between license agreements?

Mr. Rippey: Not under that count, no.

Judge Cole: Then what—how does that become involved in this litigation, then, '51 to '53?

Mr. Rippey: Because the complaint seeks recovery for use of the patents up to the time of filing the complaint, which is in 1953. That applies to the Ebsary Company and Newark, but it does not apply to the other two petitioners.

Judge Stone: That count is not based on the fact or any other count that you have not obtained a new license under the final decree.

Mr. Rippey: There is no allegation to that effect, although it is the fact. In the complaint——

Judge Stone: I say in the pleadings there is no such basis of recovery.

[fol. 1988] Mr. Rippey: It is not specifically stated. If that is what your Honor refers to?

Judge Stone: Yes, that is what I am saying.

Mr. Rippey: At the present time, the question of the existence of patents may be academic. If I am correctly informed, they have expired anyway now in 1953. If I am incorrect, I assume counsel for U. S. G. will make the correction on that.

But the position of the Ebsary Company is that the misuse that there has been which has been declared was a continuing proposition, that it depends upon the U. S. G. to affirmatively show that there has not been any, and that the date of May 15, 1951, the time of the filing of the final decree or the date of 1949 or any other date that may be chosen in between has no significance at all to the continuing status.

Judge Cole: You have your own machinery, also.

Mr. Rippey: We do, your Honor.

Judge Stone: Any other petitioners desire to be heard?

Mr. DeWitt: In the interests of accuracy, may I have just a moment? Judge Cole, I think, asked whether there was any mention in the quantum meruit count, I suppose your Honor would include under the term "mentioned" a reference.

Judge Cole: Yes, for the period I was thinking of.

Mr. DeWitt: I am looking at the quantum meruit count, count four of the Newark complaint.

Judge Cole: Yes.

[fol. 1989] Mr. DeWitt: The plaintiff repeats—"alleges as a part of his claim each and all of the allegations contained in paragraphs one, two and three of count one of the complaint, with like effect as if herein fully set forth." Count one of the Complaint, one, two and three, count one of the Complaint is the count which refers to these very license agreements.

Mr. Spray: That is paragraphs one, two and three of count one, Mr. DeWitt.

Mr. DeWitt: I understand.

Judge Stone: If the petitioners have finished their presentation, we will now hear the other side for 40 minutes. Mr. Spray.

REBUTTAL ARGUMENT ON BEHALF OF UNITED STATES GYPSUM COMPANY

By Mr. Spray:

Mr. Spray: If your Honor please, just to clarify this last point that we were on, the paragraphs one, two and three of count one, which is referred to in count four, is merely the averment regarding U. S. G.'s corporate organi-

zation in the State of Illinois; Newark, a corporation under the State of New Jersey; and that the court has jurisdiction by reason of this being a controversy between residents of different states involving more than $3,000. So that that reference back to count one had nothing whatsoever to do with incorporating anything about the old license agreements, and the quantum meruits of either count do not refer to the license agreements with this exception: count three, which we say is also a quantum meruit count, recites them but says they were rescinded and that this is [fol. 1990] suing for the rescission. So that really, the quantum meruit counts, neither they nor the infringement counts have anything whatsoever to do with the license agreements. They are inconsistent, and alternate counts, as I tried to point out this morning.

Now, in Mr. Rosenman's argument at the outset, he complained that we had had a full argument and prior hearing and the court had given full consideration, and that we were taking up matters which this court had carefully considered and rendered its decision.

Well, just unfortunately for the movers, the motion for new trial does involve questioning the correctness of the court's decision, which we are challenging. We do it with the greatest respect, but with a sincere feeling that this was an error committed which is very harmful in summarily throwing us out of court, and we do it in the spirit and with the feeling that if there is an error and we have been able to point it out, this court would be the first that would want to correct that error.

Judge Stone: That is the purpose of a motion of that sort, is it not?

Mr. Spray: Yes, sir, that is the way I think it is, and it does involve some re-argument.

Now, the reference is made to the findings which this court made about the Supreme Court opinions having found this broad violation of law and conspiracy as set forth in findings of fact four and five, and it seems to me that that again highlights the point that I tried to make [fol. 1991] right at the outset, that we get to one side and we get in the rough when we do not fully appreciate the limitations which we insist must be read with respect to

those two Supreme Court opinions: First, that the first one had only to do with the prima facie case, and secondly, I must believe the Supreme Court when it says that it construes the determination of this court to be on a very narrow limited issue and that it dismisses our appeals on the basis of that construction, and assuming the truth of all of our proffered facts.

Now, as an illustration of one thing, if the court accepts as true this proffered fact, that there was no agreement or understanding among the defendants or any of them that prices of plaster or any other unpatented Gypsum product would be raised, fixed or stabilized, nor did the defendants by any concerted action or otherwise raise, fix or stabilize any such prices, defendants' prices for plaster and other unpatented products have at all times been wholly competitive and were not in any way affected by the minimum prices established by the licensor for the patented board.

Now, if that be accepted as true, I just can't see how we can be standing here arguing that the Supreme Court held that this conspiracy which was found by this court, embodied all of these traditional violations of the Sherman Act which were alleged in the Complaint but which were set aside when we came to trying it to dispose of this thing on a motion for summary judgment.

[fol. 1992] Judge Rosenman also said that there was no purge until all evils, all the evil effects had been dissipated. He says that we say we stopped fixing prices back in '41. I would like to make it clear to the court that in using this phrase, "fixing prices," and "stop fixing prices," that was a short cut. We meant by that all these other related things which are tied back to the fixing of prices, the terms and conditions of sale, the classes of trade to be sold, the method of selling, the method of distribution, all of those things we intended to include when we said we stopped fixing prices under the licenses; we meant that, too. We were not just using the term price fixing in the narrow sense of fixing the dollar and cents price.

Judge Worley: Was that in your proffer of proof?

Mr. Spray: Yes, sir, I think that was.

Judge Worley: Could you have gone further in your proffer of proof?

Mr. Spray: I would like to clarify that right at this point. The proffer of proof, of course, had nothing whatever to do with this question of purge. That was not raised at that time. Our proffer of proof went to the question of meeting the Government's prima facie case which the court said, the Supreme Court said in its first opinion, had been made out when they remanded us and we found we were not to put in our evidence, but the Government moved for summary judgment.

We then made this proffer of proof which was to combat all of these charges that we had misused our patents, that [fol. 1993] we had violated the law in these many ways that were recited in the Complaint: but as to which we have never had our day in court. So that that was the purpose of the proffered proof and it was not as Judge Rosenman said, in the course of his argument, that the court said "you can assume all those things to be true but you still have not shown that you did not misuse your patents; you still have not shown that you were purged." That is not what the Supreme Court said.

It said, "assume all those things to be true, and you still have not avoided the narrow adjudication which this court made of law violation by reason of this industry-wide licensing," and that is all that the Supreme Court said with respect to our proffered proof.

Actually, the Supreme Court in neither of these decisions, in the first one or the second one, did the Supreme Court have anything to do with determining or not determining the purge issue.

The question of misuse and purge was not formally raised until these petitions were filed with this court in 1953, and it is as to that there are issues of fact joined, but we have never made a proffer of proof or introduced evidence with respect to them.

Judge Rosenman takes the position that we could not possibly show purge prior to May 15, 1951. But I say that that is incorrect, because purge, by the entry of a decree, is only one way of establishing it. We could, by evidence, show that we had not had any misuse of these patents clear up [fol. 1994] to, long before this final decree was entered, long before the November 7, 1949 decree was entered. That

is a matter of fact, of proof, and even though a decree had not been entered at that time, we could, in a trial where the issue was raised as it has been in these outlying suits, we could establish a purge long before that May 15th date or the November 7, 1949 date, if our evidence would support us, which we think that it would.

The decree is merely one accepted form of purge, and certainly this court thought, by its decree of 1949, November 7, 1949, that it had thereby purged any misuse of the patents because in the very decree it authorized our collection of royalty, reasonable compensation for the use of our patents, right in the very decree. That is pretty good judgment or pretty good evidence that this court thought that at that point there was a sufficient question of purge.

Now, the fact that the Supreme Court enlarged that decree does not mean that the Supreme Court was saying, "You did not purge yourself if you complied with that decree of '49." The issue was not before the Supreme Court. All that the court said was that "We sustain the lower court in holding that even on this proffered proof and the truth of it, there has been shown here enough to warrant a finding that there was a concerted action in violation of law." As they said, it was limited to that narrow, single issue, and I think that is clearly what this court [fol. 1995] thought they were determining and I think that is what the Supreme Court ruled in the second case, and it went ahead beyond that under an entirely different rule, namely, as I said this morning, that having found a violation, then the Government was entitled to a much broader decree so as to cover any possible future violation that might occur by agreements in this industry.

The point has been made that the suits are still on the docket and so we are still continuing our purge. I think in fairness it should only be pointed out that, as this court knows, those suits there are stayed pending the final determination and outcome of this. We are not trying to assert anything there. That action is stayed. Of course, it would be nice to dismiss those suits, with the Statute of Limitations having run on as much of the time as would have run on to this time, but it seems to me we are entitled, as Judge Worley has suggested, to exercise our American right of

questioning this thing in the courts, as to whether or not we should not rightfully be paid for this use of our product, our patents during this particular period.

Judge Worley: Where would you exercise that right, the District Courts where you chose them?

Mr. Spray: Well, that is where we chose to do it, because that is where they had jurisdiction. We knew we could establish the manufacture of the board with the use of our patents in those districts, in those jurisdictions. Had we come down here, I am sure we could have been met, certainly on the infringement claim, with the proposition that [fol. 1996] they didn't make any board in this district, and we were in the wrong district. We went right where they had their plants and we had our plants and we knew what they were doing and it was a proper jurisdiction and venue for trying out an infringement suit or a suit involving the use of our patents under some sort of contractual arrangement, either one among the parties or one implied by law.

Judge Worley: The question of purge would of course have been brought up there, would it not?

Mr. Spray: Sir?

Judge Worley: The question of misuse of purge.

Mr. Spray: It has been. It is an issue in the Iowa suits. As Mr. DeWitt said, they have not filed answer in their suit in Newark, nor has Ebsary in the suit in New York. By stipulation, pending the outcome here, we have just permitted that time to be extended.

Judge Worley: Do you suppose this court would have jurisdiction to hear the evidence, the question of purge of misuse, de novo?

Mr. Spray: I think the way this thing has come up, I think it would, yes, your Honor. I think we would have run into trouble had we tried to come down here, but the way this thing has been brought up, I believe the court could exercise that jurisdiction, yes, sir.

Judge Worley: Is that consistent with your questioning of jurisdiction of this court in other respects?

[fol. 1997] Mr. Spray: Well, I think it is, because I think we are over the hump as far as jurisdiction is concerned except insofar as there is an effort to expand this decree, but I think on petitions filed, we could get into that issue, yes, sir.

Judge Rosenman reads from finding of fact 22 that that shows that there was no acquiescence by U.S.G. in the license rescission.

Actually, all that shows is that there was no acquiescence on the part of U.S.G. at any time for the use of its patents without paying for it.

Reference has been made to the Hartford Empire case and I come back at that for one more fling; it has been back and forth like a tennis ball.

But I would like to make a few comments on that. Reference is made that that laid down the fundamental principle in the courts that where there is misuse there can be no recovery until a purge of that misuse, and any infringement suit or infringement prior to the entry of the decree should be enjoined, and recitation is made of the injunction provision in that court, which, as we pointed out, did not apply to the corporate defendants—I mean to suits against the corporate defendants. Reference is made to an infringement provision in that case and also to some sixty or some consent decrees which they cited in their original brief.

Now, there is no question but what courts have and sometimes do include injunction provisions in these antitrust decrees, and sometimes they do not, but the fact of the matter is that in this case neither in the 1949 decree nor in [fol. 1998] the 1951 decree was there any injunction against infringement suits such as was in the Hartford Empire case, in the limited fashion that I have mentioned, and I have never thought that it was surplusage in these other suits simply because such a provision was included, nor that it was oversight on the part of the Government or the defendants or the court or anyone else, simply because such a provision was not included in this suit, and sometimes it is not included in other suits. This is not a lone wolf in any respect from that standpoint.

It is interesting to me to hear, at this late stage, the petitioners urging the differences between Hartford Empire and this case. When they started out riding that as the cow case with all sails up, actually, I don't believe the attempted distinction stands up as they have tried to do it.

They say that the sole difference here is because, in Hart-

ford Empire, there was a receiver who collected royalties pendente lite, whereas we are trying to sue for the use of the patents pendente lite. Well, to me that could make no great distinction.

The royalties were collected to be held for and pending a final decision. The lower court had at first held that they should all be returned to the licensees who paid it. The Supreme Court reversed that and sent it back, and the final analysis of the thing is that in the settlement that was made and approved by the court, there was provision for a return of something over $7,000,000 to Hartford Empire for the use of its machines, for the use of its patents, and [fol. 1999] for the services that were rendered, and as I understand that case, the machines, many of them, did involve use of the patents, that is why the things were combined together, and the right to use the machines, the right to furnish the services, and the right to use the patents were all wrapped up in this one agreement, this one license agreement, they called it a license and lease, which was the thing that the court held illegal in that case, null and void, and yet there was recovery for this pendente lite use of that property in that case. And I submit by the same reasoning we are entitled to it in this case.

Reference is made to a free ride that was given to some of them in the Hartford Empire case. Frankly, I do not know just what that was. As I understood it, the only ones who were entitled to a free ride would be those who did not want to use the patents and did not take a license, and they were given authority to fight it out with Hartford as to how much of the fees that they had paid they could get back. That, to me, is not much of a free ride; certainly nothing compared to what these defendant co-conspirators have gotten in this case.

It is said that National should have a release because it took a license. There is nothing in our compulsory licensing provisions of our decree which says that we must give a release to anybody who asks for and takes a license. It was not in the provisions which were carefully worked out and approved by the Government, by us, by National, by Certain-teed and all the other defendants. There was [fol. 2000] not anything that said we would have to give a

release along with any new license that we granted under that—under those compulsory licensing provisions.

In stating that the Hartford Empire decree prohibits infringement, I again call attention to the fact that it expressly excluded infringement—I meant infringement suits, prohibited infringement suits. I again point out it did not prohibit infringement suits against co-defendant companies.

Before I leave Hartford Empire and the note on this page, I would like to ask leave to submit to the court, and it will be done, I will file it with the Clerk tomorrow, a copy of paragraph eleven (f)—maybe (d) and (f)—of that Hartford Empire decree which was referred to today. Judge Rosenman handed up paragraphs 15 and 16, I think. The one I want to hand up is the one in which the court approved the payment of a substantial part of these royalties to Hartford Empire, and if I may have leave to do that it will be in this court's hand by tomorrow.

Judge Stone: That may be done. Is it possible that, without inconvenience to counsel, we might have a copy each of the entire decree?

Mr. Spray: Well, I will make every effort to get that. I think those are rather rare, scarce articles, your Honor.

Judge Stone: I imagine so.

Mr. Spray: If we can possibly obtain it, I will try to furnish that. And I think if I cannot get it—the trouble [fol. 2001] is, the decree becomes quite bulky because it involves numerous exhibits that are attached. The decree itself is not so prohibitive. I think we might get the decree itself without the exhibits quite easily, but what I would like to do is get the printed form of decree which we have, one copy, and Judge Rosenman has one copy, but I think they are very difficult to get.

Judge Stone: Well, we do not wish to place any burden on you.

Mr. Spray: I would not consider it a burden. I would be delighted to get it for the court if I could.

Again, I say the co-defendant licensees here are like the co-defendant companies in the Hartford Empire, who were subject to pay for the use of the patents during this same period we are talking about.

Judge Stone: No distinction was made there, was it, no breakdown as between the patents, no allocation was made as between the patents and the machinary and services.

Mr. Spray: No, the whole thing was paid as a lump sum.

Judge Stone: Lumped together.

Mr. Spray: And I would not know, no one would guess how the breakdown was. I think that Judge Rosenman was very fair in his apprisal that it is fair to assume that there was a substantial amount of that that was because of the use—for the use of the patents, as he stated today.

Judge Stone: You have 15 minutes, Mr. Spray.

[fol. 2002] Mr. Spray: Thank you, sir. I am afraid I am over my time already.

Now, on the matter of this section 251 (d), and before I get to that, 271 (d), I do want to say I have heard the constant repetition that what we say cannot be given any real effect because, as this court held, there was a continuing misuse of our patents by the bringing of these suits for money, for the use of the patents.

Well, of course, if we are wrong on that, then it is quite true, but that is one of the points we are asserting here as an error in the decision and which we are asking the court to reconsider.

Now, as to 271 (d), to state that it is limited to contributory infringement is merely to ignore the language of the Statute which expressly refers to infringement and contributory infringement.

The Cole case, which we cited and which is referred to, was certainly on that point and held that it applied to infringement, and that is why we cited it.

It is quite true we have a slightly different case, but we are saying that the public policy shows that the enforcement of patent rights alone cannot be treated as a misuse of patent, and that we are trying to enforce our patent rights either by infringement suit or by some other means of recovery such as quantum meruit for the use of the patents under circumstances which would not be infringement [fol. 2003] but which would be subject to an agreement to pay which the law would imply.

It was the matter of declaration of public policy, as shown by that patent codification, that we were relying upon.

Judge Rosenman, in referring to the second Supreme Court decision said that, assuming the truth of the allegations, of the proffered proof, the defendants were still guilty of the conspiracy which the Government alleged.

That is not so by our reading of it. It said that, assuming the truth of that, we were still not guilty of the conspiracy which this District Court had found, that narrow conspiracy.

Now on quantum meruit, I think we have answered that in our reply brief which was filed and which I believe is with the court, but there may not be a formal order yet permitting us, granting us the right to file it. I would call that to the court's attention.

There we have pointed out that in quantum meruit the cases are clear that you can waive the tort and sue in quantum meruit. But we are not doing that here. We are suing for infringement, or have an infringement count for the infringement. We are suing in quantum meruit for the use of patents under circumstances from which the law would imply a promise to pay.

Judge Stone: If there is no order regarding your reply brief, the order will now be made and will be regarded as filed.

Mr. Spray: Thank you, sir.

[fol. 2004] Judge Stone: It has been considered by the members of the court.

Mr. Spray: In answer to Judge Worley's question as to whether, or one of the questions of the court, as to whether or not Newark could go on forever using the patents without paying, I understood Mr. DeWitt to say "No," but it seems to me from his argument they could go on forever avoiding the issue of whether or not they were actually using our patents, and that is what we are trying to try out in the Newark suit. I hope I have left some time for Judge Bromley. I know he had a few words to say and I do want to thank the court for their consideration given us today.

REBUTTAL ARGUMENT ON BEHALF OF UNITED STATES GYPSUM COMPANY

By Mr. Bromley.

Mr. Bromley: May it please the court, Mr. Spray is right, I think, when he suggests that the nub of Judge Rosenman's argument on purge is that there cannot be a purge without a court decree.

I say with deference that is patently absurd. Suppose we walked in here tomorrow with our witnesses and established, as we can, I think, that between 1941 and 1948 we revised our practices in this industry so that we did everything that was called for by the 1951 decree, and that during the period between 1948 and 1951, nothing changed with respect to our practices and we made no violation of the antitrust laws. I submit that that would establish a purge, [fol. 2005] and could be done without the showing that we did it under judicial compulsion, just as open to us to show purge by reason of what we did voluntarily to comply with the law as it is to show purge by assuming that we obeyed a court decree.

It is interesting to me that the very case which Judge Rosenman specifically called your attention to this morning from New Jersey, the Schiplets case, giving you the citation in 89 Federal Supplement 814, arrives at the same result. There the plaintiff owned a patent for a complicated mechanism used for the production of print butter, a small portion of butter bearing a symbol or design.

He brought a suit for infringement. The defendant, who was a competitor, moved to dismiss the complaint, and the court considered the motion on a showing that the plaintiff in this suit, who sued for infringement of his patent, had a practice of leasing the patented machine to users under a covenant whereby the user agreed to use the machine exclusively and not to use the machines of any competitor. And the court dismissed the Complaint, saying that the suit for infringement of that patent showed on its face that the patent was being misused.

In dismissing it, however, Judge Smith in Newark says this, "It follows the Complaint must be dismissed. The dismissal, however, shall be without prejudice to the right of the plaintiff to commence another suit upon its abandon-

[fol. 2006] ment of the leases herein found to be illegal."

Now that, to me, is authority out of their own brief and their own citation for the proposition that Judge Rosenman is not correct when he says the only way you can show purge is by a court decree.

I don't know that I agree with Mr. Spray that this court has jurisdiction to enter into any such venture as the determination of purge in this situation.

I do not think it has, but if it did have, it seems to me to be a most unwise exercise of jurisdiction for this court to undertake, because, as I look at it, it involves different sets of circumstances as between U.S.G. and four of these defendants. What we did with respect to National to purge our misuse as to it may be and probably is different in some respects from what we did with respect to Certain-teed, and our pleadings of our causes of action indicate that there may be that variance. So I think it would be an unwise exercise.

Judge Worley: I did not subscribe to the wisdom of that proposition.

Mr. Bromley: I know you did not, sir.

Judge Worley: I merely asked a question.

Mr. Bromley: It seems to me your question, however, only underlines the contention that the proper place for any such determination as that is in the respective courts where the actions against these defendants are pending.

[fol. 2007] I did want to call to your attention, Judge Worley, what I believe is an answer to the question which you asked Judge Rosenman. As I remember it, you said this to him. "Did the patents in Hartford Empire cover the machines used by the licensees?"

Well, that question can be answered from the final decree in Hartford Empire of October 31, 1945, on page 8, paragraph numbered five. That paragraph recites that the defendants, naming them, and including Hartford Empire, "have monopolized, combined and conspired to monopolize and conspired to restrain trade in violation of the Sherman Act, with respect to patents covering inventions embodied in machinery used in the manufacture of glassware, and patents with respect to machinery used in the manufacture of glassware." So that I think the answer is perfectly plain.

Judge Worley: Patents covering and patents used in connection, with respect to——

Mr. Bromley: Yes, sir. I think that means products patents, machine patents and process patents, and improvement and device patents, as well.

In conclusion, I still find myself confused as to what the defendants' position really is about their asserted misuse. Is it that the bringing of the suit is a new misuse, and, if it is, what about the two year period that preceded the bringing of our suits against these defendants? If, as Judge Rosenman said, the May 15, 1951 decree completely purged us, then until we brought the suits we must have been entirely innocent and entitled to assert all of our rights. Can [fol. 2008] it be that the mere bringing of the suit has so converted our proper conduct for the preceding two years into improper conduct? I certainly think not. Can it be that the mere act of bringing the suit at a time when we were purged of all wrongdoing suddenly becomes wrongful? I submit not.

I, too, desire to thank your Honors for your great patience and the careful consideration of the opportunity which you have given us to come here and take your time in re-argument, and I know I speak for all counsel at both tables.

Judge Stone: Mr. Knuff, Judge Cole called my attention to a matter that I thought I had covered and that was that all of the petitioners had an opportunity to be heard. We thought you might not have understood that.

Mr. Knuff: Yes. I understood it, your Honor, and to the extent——

Judge Stone: Because if you do want to be heard we would be delighted to hear you.

Mr. Knuff: No. To the extent, your Honor, that the argument of the petitioners supports the position of the Government, we have nothing to add to that argument. However, it is our understanding that in the present posture of these proceedings, no one has challenged that part of the court's findings which sustained the position of the Government. That is conclusion Number 7, conclusion of law Number 7. It is not in issue. Nobody has challenged that and that is the conclusion that sustained the Govern- [fol. 2009] ment's position.

Judge Stone: Mr. Rosenman?

Mr. Rosenman: Judge Worley asked Mr. Spray a question, whether he thought this court could determine the question of fact or whether only Iowa could, and he and Judge Bromley answered that question. Could I state my views on that? It is something which occurred in their rebuttal argument, and it was not asked of me. Would it be helpful if I stated my views toward what Judge Bromley said as his answer?

Judge Stone: Is there any objection to hearing counsel briefly on that?

Mr. Bromley: No, sir.

Judge Stone: You may proceed briefly.

Mr. Rosenman: Yes, sir. Although Mr. Spray thought he could, Judge Bromley disagreed with him and said that there are four different defendants here and what U.S.G. did with one defendant might be different from the course of conduct it took with another defendant.

I think that misconceives the idea of patent misuse and the concept of patent misuse, because if you misuse your patents with respect to anybody, then you are subject to the doctrine of misuse, and if in fact they did misuse it with any of these licensees, here in court or licensees out of court, then they are guilty of misuse so that the answer that it would depend upon what we did with each respective licensee, I submit, does not answer the question. The same [fol. 2010] question will be involved in respect to all of the suits, namely, was there any misuse of the patent or wasn't there, and it does not depend upon what happened with each different licensee.

Thank you very much for this opportunity.

Judge Worley: If a patentee misuses his patent with respect, say, to one individual, yet does not misuse it in any form with respect to, say the rest of the public, that misuse carries over to all of the licensees.

Mr. Rosenman: I would say if that misuse produces the kind of evil effects of restraint and monopoly which the Supreme Court spoke of, then it applies to everybody in that industry.

Judge Worley: That is what I wanted to clarify.

Mr. Rosenman: Yes.

Judge Worley: If it produced that kind of evil that the Supreme Court has said is bad?

Mr. Rosenman: Yes, sir. It is bad as to everybody.

Judge Worley: But otherwise it is just a question of degree?

Mr. Rosenman: Well, I think it is a question of is it a misuse, and a misuse is defined by the court to mean using a patent beyond the legal terms of the monopoly given to you, and if it goes beyond that with respect to anybody, then I think the courts hold that that is a misuse of the patent and the result is that you cannot sue any infringer while that misuse continues.

Judge Worley: It would again be a question of fact as to [fol. 2011] each case?

Mr. Rosenman: That is right. I respectfully urge that that question of fact has been determined already, that this has been a misuse, and I don't think it makes any difference whether it is as to two licensees or more.

If in—if I may add to that, if there has been a misuse, if the court finds a misuse with respect to anybody, and that misuse is what the court holds to be a misuse, then the effects of that misuse are applicable to the whole world, and I don't think it is a question of fact as to whether it is a misuse with respect to one licensee or another. If the acts come within what the courts call a misuse, and we urge that that is the fact here, then the results, the effects of that misuse, the penalties of that misuse are applied.

Judge Worley: Universally?

Mr. Rosenman: With respect to the whole world. What is your Honors' wish with respect to this record?

Judge Stone: You mean the record made today, Judge Rosenman?

Mr. Rosenman: Yes, sir.

Judge Stone: The court has just instructed the Reporter to furnish each member of the court with a copy of the transcript, and I wish to thank you gentlemen in the name of the court for the great help you have given us today and heretofore in the conduct of this case. I think since we have placed the burden of so many hours of argument upon you, it is due you to say that the members of the court tried for [fol. 2012] several days to find a date when we could devote

two days to this hearing, but the commitments of the different members of the court happened to be such that we could not do that until toward the summer, and that might be imperilled, even, so we had to subject you gentlemen to this, but you have been very, very helpful and we thank you.

Mr. Marshal, announce that the court will be in recess until further call.

(Whereupon, at 5:20 p.m., the argument was concluded.)

[fol. 2013] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

ORDER DENYING MOTION FOR NEW TRIAL—June 30, 1955

After full consideration of the matters presented by counsel in support of and in opposition to the Motion for a New Trial now pending herein, it is hereby

Adjudged and Decreed that said Motion be and is hereby denied.

Kimbrough Stone, Circuit Judge. Eugene Worley, District Judge.

I adhere to the views expressed by me in the dissenting opinion heretofore filed herein.

William P. Cole, Jr., District Judge.

Dated this 30 day of June, 1955.

[fol. 2014] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

No. 8017 Civil

UNITED STATES OF AMERICA, Plaintiff,

v.

UNITED STATES GYPSUM COMPANY, et al., Defendants

MEMORANDUM OPINION RE DENIAL OF MOTION FOR NEW TRIAL —June 30, 1955

Before the Honorable Kimbrough Stone, United States Circuit Judge and the Honorable Eugene Worley and the Honorable William P. Cole, Jr., Judges of the United States Court of Customs and Patent Appeals, sitting as District Judges.

PER CURIAM: The function of a motion for a new trial is to direct the attention of the Court to matters in the opinion of the trial court, in its findings of fact or in its conclusions of law, which counsel regard as having resulted in an erroneous judgment. Here, counsel for the various parties have ably presented or opposed the present motion.

Although the merits of these petitions by the Government and the other petitioners were exhaustively discussed and determined, in majority and dissenting opinions, and the settlement of Finding and of the Conclusions and the form of judgment had been painstakingly considered by this Court heretofore in the light of extended invited suggestions from counsel, we have not deemed this present motion as merely a necessary formal step in the progress to a final determination by the Supreme Court. Not only have we listened to the excellent oral arguments on this motion but we have carefully read and studied the complete tran-[fol. 2015] script of that hearing as well as all of the matters brought to our attention therein.

Because of these efforts by the Court members and because we still adhere to the views heretofore expressed, it would be but repetition to write a memorandum ruling this motion were it not for one entirely new feature which ap-

pears for the first time in this motion. This one matter requires attention and determination. This is the contention by USG that Section 271(d) of Title 35 expressly protects the USG suits against petitioners from any defense of "misuse" on its part of its patents.

The here pertinent language of paragraph "(d)" is that "No patent owner otherwise entitled to relief for infringement * * * of a patent shall be denied relief or deemed guilty of misuse or illegal extention of the patent right by reason of his having * * * (3) sought to enforce his patent rights against infringement * * *."

The vital words for us in this quotation are "otherwise entitled". Patents are classical instruments in conspiracies and combinations to violate the Sherman Act. Can it be that where a designated misuse of patents—here patent license agreements—has been adjudged to be violative of that Act that thereafter the patentee-licensor is absolutely protected by paragraph (d)(3) from the defense of misuse in recovering upon those adjudged unlawful agreements? Can it be possible that the Congress intended, by paragraph (d), to give to a patentee a protection superior to the broad public policy of the Sherman Act?

We have determined that the 1951 Final Decree should be modified to effectuate that Decree fully. Those modifications cover the USG suits definitely. We cannot believe that paragraph (d) was intended to or can properly be con-
[fol. 2016] strued as nullifying the power of this Court to effectuate the purposes of an anti-trust decree. In short, USG is *not* "otherwise entitled" to come within paragraph (d)(3).

[fol. 2017] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

ORDER TO CERTIFY AND TRANSMIT ORIGINAL DOCUMENTS—August 25, 1955

Upon consideration of the request of United States Gypsum Company for an Order directing the Clerk of this

Court to certify and transmit to the Supreme Court of the United States the original papers and documents specified in designations to the Clerk of this Court as the transcript of the record on appeal, and no oppositions having been noted thereto, it is by the Court this 25th day of August, 1955,

Ordered, That the request be, and the same hereby is granted, and the Clerk of this Court is directed to certify and transmit to the Supreme Court of the United States the original papers and documents specified in such designations.

William P. Cole, Jr., Judge.

[fol. 2018] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

ORDER STAYING DECREE OF DECEMBER 9, 1954 AND FIXING AMOUNT OF SUPERSEDEAS BOND—August 25, 1955

Upon consideration of the petition of United States Gypsum Company for an Order staying this Court's decree of December 9, 1954, and no oppositions thereto having been noted, it is by the Court this 25th day of August, 1955,

Ordered, That upon the approval of the supersedeas bond, as hereinafter provided for, said judgment and decree of December 9, 1954 be, and the same is hereby stayed in all respects until the disposition of the appeal by the United States Gypsum Company to the Supreme Court of the United States.

It is further ordered, That a supersedeas bond be, and the same hereby is, fixed in the amount of $250.00 with good and sufficient surety and shall be conditioned as may be required by law.

William P. Cole, Jr., Judge.

Assented to: Kimbrough Stone, Judge, Eugene Worley, Judge.

[fol. 2019] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

SUPERSEDEAS BOND ON APPEAL AND APPROVAL THEREOF—August 25, 1955

The undersigned as principal, being about to file a notice of appeal to the Supreme Court of the United States to reverse the final decree of the three-judge court entered in the foregoing action on December 9, 1954, is required, to supersede said final decree, to give an undertaking, under seal, in the sum of $250.00 dollars, conditioned for the satisfaction of the judgment in full with costs, interest, and damages for delay, if for any reason the appeal is dismissed or if the judgment is affirmed, and to satisfy in full such modification of the judgment and such costs, interest, and damages as this Court may adjudge and award.

Wherefore, the undersigned United States Gypsum Company, as principal, and Fidelity & Deposit Company of Maryland, as surety, appearing and submitting to the jurisdiction of the Court, hereby undertake for themselves and each of them, their and each of their successors and assigns, to comply with the conditions as above set forth, and do further agree that, upon default by the said principal in any of the conditions hereof, the damages and costs, not exceeding the sum aforesaid, may be ascertained in such manner as this Court shall direct; that this Court may give judgment hereon in favor of any person thereby ag-[fol. 2020] grieved against them for the damages and costs suffered or sustained by such aggrieved party; and that said judgment may be rendered in the above entitled cause or proceeding against either or both of them whose names are herein signed.

The said surety hereon hereby irrevocably appoints the clerk of this Court as its agent upon whom any papers affecting its liability on this undertaking may be served.

Signed, sealed and delivered this 25th day of August, 1955.

United States Gypsum Company, by O. M. Knode (Seal), Its President; Fidelity & Deposit Company of Maryland, by Carlton W. Roe (Seal).

Attest: F. L. Stellner, Secretary.

Surety holds authority from Secy. of Treas. to do business in D. C. and has a process agent therein.

Harry M. Hull, Clerk.

By Robert C. Huey, Deputy Clerk, Aug. 24, 1955. Surety and amount approved this 25th day of August, 1955.

William P. Cole, Jr., Judge.

Assented to: Kimbrought Stone, Judge; Eugene Worley, Judge.

[fol. 2021] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

NOTICE OF APPEAL TO THE SUPREME COURT OF THE UNITED STATES—Filed August 26, 1955

I

Notice is hereby given that United States Gypsum Company,* one of the defendants above named, hereby appeals to the Supreme Court of the United States from the final decree of the three-judge court entered in the foregoing action on December 9, 1954, the court by its order of June

---

* Referred to herein as U. S. Gypsum, Defendants National Gypsum Company, Certain-Teed Products Corporation, Ebsary Gypsum Company, Inc., and Newark Plaster Company are referred herein as National, Certain-Teed, Ebsary and Newark, respectively.

30, 1955, having denied U. S. Gypsum's motion for new trial filed herein on December 20, 1954.

This appeal is taken pursuant to Section 2 of the Expediting Act of February 11, 1903, as amended (32 Stat. 823; 36 Stat. 1167; Title 15 U.S.C. Sec. 29) and Title 28 U.S.C., Sec. 1253.

[fol. 2022] II.

The clerk will please prepare a transcript of record in this cause, for transmission to the Clerk of the Supreme Court of the United States, and include in said transcript the following:

A. The following portions of the record previously certified to the Supreme Court of the United States in response to the plaintiff's praecipe filed herein on October 18, 1946, and the defendants' counter-praecipe filed herein on June 15, 1946:

	Original Rec. Page
1. Complaint	1
Exhibit No. 1—The Utzman Patent	47
Exhibit No. 2—The 1926 License Agreement between U.S.G. and Beaver	51
Exhibit A, therewith	62
Exhibit No. 3—The May 1929 License Agreement between U.S.G. and Ebsary	68
Exhibit A, therewith	80
Exhibit No. 4—The Hite Patent	84
Exhibit No. 5—The Haggerty Patent	87
Exhibit No. 6—The October 1929 Agreement between U.S.G. and Ebsary	91
Exhibit A. therewith	115
Exhibit No. 7—Price Bulletins from U.S.G. to Licensees	119
Exhibit No. 8—The First Roos Foam Patent	133
Exhibit No. 9—The Second Roos Foam Patent	136
Exhibit No. 10—The Third Roos Foam Patent	139

	Original Rec. Page
Exhibit No. 11—The Metallized Board License Agreement between U.S.G. and Ebsary	143
Schedule A therewith	159
Exhibit No. 12—The Perforated Lath License Agreement between U.S.G. and Certain-teed	160
2. Defendants' Joint Motion for a more definite statement or bill of particulars	169
3. Order directing plaintiff to file a more definite statement or bill of particulars, etc.	206
4. Bill of particulars filed by the United States of America	210
5. Amendment to Complaint	215
6. Answer of defendants, Frederick G. Ebsary and Ebsary Gypsum Company, Inc.	220
7. Answer of Samuel M. Gloyd	228
8. Answers of defendants The Celotex Corporation and Bror G. Dahlberg	248
9. Answer to defendants National Gypsum Company and Melvin H. Baker	283
10. Answers of defendants Certain-Teed Products Corporation and Henry J. Hartley	298
11. Answer of United States Gypsum Company, Sewell L. Avery and Oliver M. Knode	352
[fol. 2023] 12. Answer of defendants Newark Plaster Company and Frederick Tomkins	380
13. Expediting Certificate	388
14. Designation of Judges pursuant to the provisions of Sec. 28, T. 15, U.S.Code	390
15. Motion by defendants United States Gypsum Company, Sewell L. Avery and Oliver M. Knode for leave to file supplemental answer	391
Exhibit I—Proposed supplemental answer	392
Exhibit A—Indictment in Criminal No. 66008	397
Exhibit B—Verdict in Criminal No. 66008	419
16. Motion by defendants Certain-teed Products Corporation and Henry J. Hartley for leave to file supplemental answer	420

	Original Rec. Page
Exhibit I—Proposed supplemental answer	421
17. Motion by defendants Ebsary Gypsum Company, Inc. and Frederick G. Ebsary for leave to file supplemental answer	426
Exhibit I—Proposed supplemental answer	427
18. Motion by defendants The Celotex Corporation and Bror G. Dahlberg for leave to file supplemental answer	432
Exhibit I—Proposed supplemental answer	433
Exhibit A—Indictment in Criminal No. 66008	438
Exhibit B—Verdict in Criminal No. 66008	458
19. Motion by defendants Newark Plaster Company and Frederick Tomkins for leave to file supplemental answer	459
Exhibit I—Proposed supplemental answer	460
Exhibit A—Indictment in Criminal No. 66008	465
Exhibit B—Verdict in Criminal No. 66008	487
20. Motion by defendant Samuel M. Glover, etc. for leave to file supplemental answer	488
Proposed supplemental answer	489
21. Motion by defendants National Gypsum Company and Melvin H. Baker for leave to file supplemental answer	494
Exhibit I—Proposed supplemental answer	495
22. Motion by plaintiff for leave to amend the prayer of the complaint	498
Proposed amendment to prayer	499
23. Order granting leave to file supplemental answers	501
24. Motion by plaintiff for leave to amend the complaint	502
Exhibit—Proposed amendment to complaint	503
25. Order amending prayers of complaint	505
26. Order to amend complaint by adding thereto	506
27. Defendants' motion to strike or, in the alternative, for partial judgment	507
Affidavit of Bruce Bromley	509

Original
Rec. Page

[fol. 2024]

28. Revocation of designation of Judge Oscar E. Bland to perform duties of a District Judge.. 511
29. Designation of Judge Joseph R. Jackson to perform duties of a District Judge..... 512
30. Amendment to designation of Judges..... 513
31. Opinion on motion to strike paragraph 46(a) of complaint, etc..... 514
32. Order on motion to strike paragraph 46(a) of complaint, etc..... 546
33. Supplemental Answer of United States Gypsum Company, et al..... 548
34. Supplemental Answer of Certain-teed Products Corporation and Henry J. Hartley..... 549
35. Supplemental Answer of Ebsary Gypsum Company and Frederick G. Ebsary..... 550
36. Supplemental Answer of The National Gypsum Company and Melvin H. Baker..... 551
37. Supplemental Answer of The Celotex Corporation and Bror G. Dahlberg..... 552
38. Supplemental Answer of Newark Plaster Company and Frederick Tomkins..... 553
39. Supplemental Answer of Samuel M. Gloyd, etc... 554
40. Transcripts of Proceedings..... 555
41. Plaintiff's request for admissions directed to Certain-teed Products Corporation..... 8497-8565
Exhibits therewith, Nos. 1 through 67.
42. Plaintiff's request for admissions directed to National Gypsum Company..... 8566-8611
Nos. 1 through 30.
43. Plaintiff's request for admissions directed to United States Gypsum Company..... 8619-8707
Exhibits therewith, Nos. 1 through 75.
44. Answer to request for admissions by National Gypsum Company..... 8708
45. Answer to request for admissions by Certain-teed Products Corporation..... 8712
46. Opinion on motions to strike certain exhibits and testimony, etc..... 8716

	Original Rec. Page
47. Findings of fact and conclusions of law	8876
48. Final Judgment	8925
49. Order correcting opinion of June 15, 1946, on motions to strike certain exhibits and testimony, etc.	8926
50. Order correcting opinion of June 15, 1946, on motions to strike certain exhibits and testimony, etc.	8932
51. Assignment of errors and prayer for reversal	8933
52. Petition for appeal	8944
53. Order allowing appeal	8946
54. Citation	8947
55. Request to certify and transmit original documents	8948
56. Order to certify and transmit original documents	8949
57. Plaintiff's praecipe for transcript of record	8950
58. Proof of service	8954
59. Interrogatories on behalf of the United States of America to be answered by United States Gypsum Company	9106
[fol. 2025] 60. Interrogatories on behalf of the United States of America to be answered by National Gypsum Company	9112
61. Interrogatories on behalf of the United States of America to be answered by Certain-teed Products Corporation	9118
62. Interrogatories on behalf of the United States of America to be answered by The Celotex Corporation	9124
63. Interrogatories on behalf of the United States of America to be answered by Ebsary Gypsum Company, Inc.	9129
64. Interrogatories on behalf of the United States of America to be answered by Newark Plaster Company	9135
65. Interrogatories on behalf of the United States of America to be answered by Texas Cement Plaster Co.	9141

	Original Rec. Page
66. Order upon motions for orders sustaining objections to interrogatories	9146
67. Affidavit of Edward Knuff in opposition to defendants' motion to strike or, in the alternative, for partial judgment	9155
68. Reply affidavit of defendants on motion to strike or, in the alternative, for partial judgment (George S. Collins)	9156
69. Copies of Patent Nos. 1,914,345	9158
1,938,354	9165
2,017,022	9177
2,079,338	9181
2,080,009	9185
70. Order granting extension of time within which to file counter-praecipe	9190
71. Counter-praecipe	9191
72. Government's Exhibits	9193-11681

Nos. 1 through 39, 101, 102, 104 through 115, 117 through 135, 136-A, 136-B, 138, 141, 142, 144 through 147, 149 through 160, 160-A, 161 through 209, 211 through 218, 224 through 228, 230, 231, 232, 234 through 238, 241, 244 through 256, 258 through 266, 268, 269, 271, 274 through 294, 296, 298, 299, 300, 300-A, 301, 302, 305 through 308, 310 through 318, 321 through 341, 343, 343-A, 345 through 358, 360 through 366, 366-A, 367, 368, 368-A, 369, 369-A, 369-B, 370, 370-A, 371 through 374, 375-A, 375-B, 375-C, 375-D, 376, 376-A, 376-B, 376-C, 377-A, 377-B, 377-C, 377-D, 377-E, 378, 378-A, 378-B, 378-C, 379-A, 379-B, 379-C, 379-D, 379-E, 380 through 400, 403, 403-A, 404 through 418, 420 through 428, 428-A, 429 through 436, 436-A, 437 through 476, 480 through 487, 489 through 502, 502-A, 503 through 506, 508 through 513, 513-A, 514 through 550, 553 through 556, 558, 562, 571 through 578, 584, 585, 591 through 596, 596-A, 597 through 599, 601 through 605, 609

through 621, 624 through 642, 644, 693 through 697, 699 through 714, 714-A, 714-B, 716 through 727, 729 through 785.

[fol. 2026] B. The following portions of the record previously certified to the Surpeme Court of the United States, subsequent to the first mandate of that court filed herein on June 8, 1948, in response to plaintiff's praecipe filed herein January 25, 1950, and the counter-praecipe of defendants, U. S. Gypsum, Sewell L. Avery and Oliver M. Knode, filed herein February 3, 1950 and subsequent motions to supplement the record:

	Original Rec. Page
1. Reporter's Transcripts of Proceedings	
Hearings of June 8, 1948	11682
June 29, 1948	11733
July 30, 1948	11878
June 13, 1949	11902
June 14, 1949	12067
2. Mandate of the Supreme Court of the United States, filed Apr. 10, 1948	12242
3. Certified copy of Order on Mandate	12246
4. Plaintiff's motion for summary judgment	12247
5. Offer of Proof by defendants United States Gypsum Company, Sewell L. Avery and Oliver M. Knode	12248
6. Offer of Proof by the defendant The Celotex Corporation	12271
7. Order enlarging time for plaintiff to file proposed findings of fact	12274
8. Order extending time for defendants to file objections to plaintiff's proposed findings of fact, etc.	12275
9. Order extending time for defendants to file objections to plaintiff's proposed findings of fact, etc.	12276
10. Extracts from the Memorandum in opposition to plaintiff's proposed Decree, Findings and Conclusions	12277
11. Defendant's Proposed Findings of Fact and Conclusions of Law	12279

	Original Rec. Page
12. Final Draft of License Agreements submitted on behalf of United States Gypsum Company	12293
13. Government's suggested corrections to transcript	12326
14. Preliminary Statement, Decree	12340
15. Opinion by Stephens, J. on motion for summary judgment	12348
16. License Agreement	12351
17. USG's Suggested Corrections to Transcript	12381
18. Petition of United States Gypsum Company, Sewell L. Avery and Oliver M. Knode, for Appeal	12384
19. Order allowing appeal	12385
20. Assignment of Errors and Prayer for Reversal, by USG et al.	12387
21. Statement as to Jurisdiction by USG et al.	12392
22. Citation filed by USG et al.	12433
[fol. 2027] 23. Statement required by Para. 2, Rule 12 of the Rules of the Supreme Court of the United States	12434
24. Cost Bond on Appeal	12436
25. Petition of USG et al. for order staying judgment and decree	12437
26. Order staying judgment and decree	12438
27. Supersedeas Bond on Appeal	12439
28. Certificate of Service	12441
29. Certificate of Service	12442
30. Proof of Service	12443
31. Petition of United States of America, plaintiff, for Appeal	12444
32. Order allowing appeal	12446
33. Citation filed by plaintiff	12447
34. Assignment of Errors and Prayer for Reversal by plaintiff	12448
35. Statement as to Jurisdiction	12451
36. Statement required by Para. 2, Rule 12 of the rules of the Supreme Court of the United States	12470
37. Proof of Service	12471
38. Affidavit of Service	12473

	Original Rec. Page
39. Praecipe designating record on appeal	12474
40. Statement by defendants USG et al. of grounds making against the jurisdiction of the Supreme Court of the United States	12477
Proof of service thereof	12490
41. Proof of Service	12491
42. Certificate of Service	12492
43. Praecipe for transcript of record	12493
44. Request to certify and transmit original documents	12498
45. Order to transmit original documents	12499
46. Proof of Service	12500
47. Affidavit of Service	12501
48. Counter-Praecipe of defendants USG et al.	12502
49. Proof of Service	12504
50. Certificate of Service	12505
51. Request to certify and transmit original documents	12506
52. Order to certify and transmit original documents	12507
53. Order enlarging time to docket appeal	12508
54. Order enlarging time to docket appeal	12510
55. Statement opposing jurisdiction and motion to dismiss or affirm of the Celotex Corporation	12512
56. Proof of Service	12532
57. Stipulation relative to transmittal of record on appeal	12533
58. Clerk's Certificate	12535
59. Certification of Harry M. Hull, Clerk, filed April 19, 1950, as to plaintiff's proposed findings of fact and conclusions of law	12538
60. Plaintiff's proposed findings of fact and conconclusions of law	12539-12599
61. Certification of Harry M. Hull, Clerk, filed April 19, 1950, as to plaintiff's original proposed decree	12600
62. Plaintiff's proposed decree	12601-12613
[fol. 2028] 63. Certification of Harry M. Hull, Clerk, filed April 24, 1950, as to memorandum in opposition to plaintiff's proposed findings, conclusions and decree	12616

Original
Rec. Page

64. Memorandum in opposition to plaintiff's proposed decree, findings and conclusions filed by defendants U. S. Gypsum, Sewell L. Avery and Oliver M. Knode, March 4, 1949 12620-12717

C. The following portions of the record not previously certified to the Supreme Court of the United States either because not deemed pertinent to the prior appeals herein or because of their becoming a part of the record subsequent to the second mandate of the Supreme Court of the United States filed on January 4, 1951:

1. Mandate of the Supreme Court of the United States dismissing appeal of U. S. Gypsum, et al., filed July 19, 1950.

2. Mandate of the Supreme Court of the United States issued November 27, 1950 and filed herein on January 4, 1951.

3. Memorandum entitled "Memorandum Submitted on Behalf of Defendants, Newark Plaster Company and Frederick Tomkins, on the Form of the Findings, Conclusions and Decree to be Entered in this Action," filed March 3, 1949.

4. Memorandum of defendants National and Melvin H. Baker in Opposition to plaintiff's proposed findings, conclusions and decree, filed March 4, 1949.

5. Objections of defendant Certain-teed to plaintiff's proposed findings of fact and conclusions of law, filed March 3, 1949.

6. Objections of defendant Certain-teed in opposition to plaintiff's proposed decree, filed March 3, 1949.

7. Memorandum of defendants Ebsary and Frederick G. Ebsary in opposition to plaintiff's proposed findings, conclusions and decree, filed March 4, 1949.

8. Objections of defendant Celotex in opposition to plaintiff's proposed findings of fact, conclusions of law and decree, filed March 4, 1949.

[fol. 2029] 9. Memorandum of the defendant Texas in response to the proposed findings, conclusions and decree heretofore submitted by the plaintiff, filed March 4, 1949.

9a. Copies of forms of revised license agreements filed

with the court by U. S. Gypsum at the June 1949 hearing (TR. 8150; 8257-60).

10. Memorandum of defendant Newark, filed July 14, 1949.

11. Supplemental memorandum of defendants National and Melvin H. Baker, filed in July, 1949.

12. Reply memorandum of U. S. Gypsum filed July 23, 1949.

13. Suggested form of revised decree filed by the plaintiff on March 6, 1951.

14. Suggested form of revised decree as filed herein by defendant U. S. Gypsum on March 6, 1951.

16. Suggested form of revised decree as filed herein by National on March 6, 1951.

16. Suggested form of revised decree as filed herein by Certain-teed on March 6, 1951.

16a. Form of decree as revised by U. S. Gypsum to reflect the negotiations between the parties and as filed May 15, 1951.

17. Final decree entered May 15, 1951.

18. Reporter's transcript of the proceedings on May 15, 1951, and June 15, 1951 (being transcript pages 8301 to 8358, both inclusive).

19. Petition of National for orders, modifications or directions for the enforcement, construction or carrying out of the decree of May 15, 1951, filed March 25, 1953, together with Exhibits A, B, C, D, and E attached thereto.

20. Petition of Certain-teed for enforcement of compliance with final decree of May 15, 1951, filed April 22, 1953.

21. Petition of Newark for orders, modifications or directions for the enforcement, construction or carrying out of the final decree of May 15, 1951, filed May 16, 1953.

22. Petition of Ebsary for orders, modifications or directions for the enforcement, construction or carrying out of the final decree of May 15, 1951, filed June 3, 1953.

23. Petition of plaintiff for orders or directions for the construction, carrying out or enforcement of the final decree of May 15, 1951, filed June 30, 1953.

24. Answers of U. S. Gypsum to petition of National of March 25, 1953, to petition of Certain-teed of April 22, 1953, to petition of Newark of May 15, 1953, to petition of Ebsary

of June 3, 1953, and to petition of plaintiff of June 30, 1953, filed September 9, 1953.

[fol. 2030] 25. Copy of Amendment to Complaint filed March 24, 1953, in the United States District Court for the Northern District of Iowa, Central Division, in cause entitled "United States Gypsum Company v. National Gypsum Company, Civil Action No. 564," a copy of which was filed herein on July 28, 1953.

26. Copy of amended answer filed by National in the United States District Court for the Northern District of Iowa, Central Division, in cause entitled "United States Gypsum Company v. National Gypsum Company, Civil Action No. 564," a copy of which was filed herein on June 25, 1953.

27. Copy of answer filed by Certain-teed in the United States District Court for the Northern District of Iowa, Central Division, in cause entitled "United States Gypsum Company v. Certain-teed Products Corporation, Civil Action No. 568," a copy of which was filed herein on June 26, 1953.

28. Order entered herein May 7, 1953, appointing Judge William P. Cole, Jr., as a member of the court in place of Judge Joseph R. Jackson.

29. Reporter's transcript of the proceedings herein on June 9, 1953 (being transcript pages 1 to 57, both inclusive).

30. Order of the court entered herein December 24, 1953, appointing Judge Kimbrough Stone to the court as successor to Mr. Justice Harold M. Stephens, resigned, and Judge Eugene Worley, as successor to Judge Finis J. Garrett, resigned.

31. Reporter's transcript of the proceedings herein on January 12 and 13, 1954 (being pages numbered 1 to 253, both inclusive).

32. Opinion of Judge Kimbrough Stone for the majority, filed July 6, 1954.

33. Dissenting opinion by Judge William P. Cole, Jr., filed July 6, 1954.

34. Findings of fact, conclusions of law and decree proposed by National and Certain-teed and filed August 16, 1954.

35. Memorandum of Newark and Ebsary, filed August

16, 1954, adopting and joining in National's proposed findings of fact, etc.

36. U. S. Gypsum's Objections and Suggestions with respect to petitioners' proposed findings of fact, conclusions of law and decree, filed September 17, 1954.

37. National's memorandum, filed October 11, 1954, in answer to U. S. Gypsum's Objections and Suggestions.

38. Memorandum of Newark and Ebsary filed October 21, 1954, in answer to U. S. Gypsum's Objections and Suggestions.

39. Motion filed October 18, 1954, by U. S. Gypsum petitioning for reconsideration and rehearing in respect to manifest errors of law and of fact embodied in the court's opinion of July 6, 1954.

[fol. 2031] 40. Points and authorities filed October 18, 1954, by U. S. Gypsum in support of its motion for reconsideration, etc.

41. Memorandum of National filed October 22, 1954, in opposition to U. S. Gypsum's motion for reconsideration and rehearing.

42. Order entered herein on December 9, 1954, denying without prejudice Part I of U. S. Gypsum's Objections and Suggestions with respect to petitioners' proposed findings of fact, conclusions of law and decree, filed herein on September 17, 1954, and the motion of U. S. Gypsum for reconsideration and for rehearing, filed herein on October 18, 1954.

43. Memorandum of the court, filed December 9, 1954, in support of the Court's order of December 9, denying without prejudice Part I of U. S. Gypsum's Objections and Suggestions, and its motion for reconsideration and rehearing.

44. Findings of fact and conclusion of law, and the order finding and adopting the same, entered by Judges Stone and Worley December 9, 1954, together with the dissent thereto of Judge Cole.

45. Decree entered by the majority of the court under date of December 9, 1954, together with dissent thereto of Judge William P. Cole, Jr.

46. Motion for new trial filed December 20, 1954, by U. S. Gypsum.

47. Order entered December 17, 1954, extending the time for filing U. S. Gypsum's points and authorities in support of its motion for new trial.

48. Points and authorities in support of U. S. Gypsum's motion for new trial, filed January 7, 1955.

49. Order of the court extending time within which to file statements in opposition to U. S. Gypsum's motion for new trial.

50. Statement of National and Certain-teed, filed February 28, 1955, in opposition to U. S. Gypsum's motion for new trial.

51. Reply of petitioners, Newark and Ebsary, filed February 28, 1955, in opposition to motion for new trial.

52. Motion of U. S. Gypsum, filed herein on March 10, 1955, for leave to file instanter its reply brief to statement of National and Certain-teed in opposition to its motion for new trial.

53. Reply brief of U. S. Gypsum, filed herein on March 10, 1955, to statement of National and Certain-teed in opposition to U. S. Gypsum's motion for new trial.

54. Order of this court entered April 26, 1955, granting leave to U. S. Gypsum to file its reply brief to petitioners' statement in opposition to its motion for new trial.

[fol. 2032] 55. Reporter's transcript of the proceedings of April 26, 1955, being transcript pages 1 to 187, both inclusive.

56. Order entered June 30, 1955, denying U. S. Gypsum's motion for new trial, together with dissent thereto filed by Judge William P. Cole, Jr.

57. Per Curiam memorandum, filed June 30, 1955, on denial of the motion for new trial.

58. Motion to correct transcripts of proceedings on June 9, 1953, January 12 and 13, 1954, and April 26, 1955, filed August 12, 1955.

59. Order correcting transcripts of proceedings on June 9, 1953, January 12 and 13, 1954, and April 26, 1955.

60. Request to certify and transmit original documents, filed August 19, 1955.

61. Order to certify and transmit original documents.

62. Petition for order staying decree of December 9, 1954, filed August 19, 1955.

63. Order staying decree of December 9, 1954, and fixing amount of supersedeas bond.

64. Supersedeas bond and order approving same.

65. Notice of appeal by U. S. Gypsum, filed August 26, 1955.

66. Proof of service of U. S. Gypsum's notice of appeal, filed August 26, 1955.

III

The following questions are presented by this appeal:

1. Whether the filing of suits in 1953 by U. S. Gypsum against certain co-defendant companies, solely to recover compensation for the actual use of its patents, constitutes a misuse or continuing misuse of its patents?

2. Whether, and to what extent, on the record in this case, including the issues joined by the 1953 petitions and answers thereto, there can be an adjudication, as a matter of law, on the issues of patent misuse and purge during all or any part of the February 1, 1948 to May 15, 1951 period, thus precluding U. S. Gypsum from presenting evidence with respect thereto?

3. Whether, and to what extent, effectuation of the basic purposes of the final decree of May 15, 1951, requires or [fol. 2033] authorizes the district court now to modify that decree to include a provision barring U. S. Gypsum from seeking compensation for the actual use of its patents by certain-co-defendant companies during the period commencing February 1, 1948 and ending May 15, 1951, the date of the final decree?

4. Whether there is any basis for the district court's modification of the final decree of May 15, 1951, to include a provision barring U. S. Gypsum from seeking compensation for the actual use of its patents by certain co-defendant companies from May 15, 1951, the date of the final decree, to the date of the filing of U. S. Gypsum's suit against them in 1953?

5. Whether, and to what extent, the final decree of May 15, 1951, expressly or by fair intendment, bars U. S. Gypsum from seeking reasonable compensation for the actual use of its patents by certain co-defendant companies during the

period commencing February 1, 1948 and ending May 15, 1951, the date of the final decree?

6. Whether, and to what extent, the district court had, or should have taken, jurisdiction to entertain the 1953 petitions of certain co-defendant companies to adjudicate, or to enjoin the adjudication of, private rights among the defendant companies?

Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., Attorneys for Defendant United States Gypsum Company.

Gravath, Swaine & Moore, 15 Broad Street, New York 5, New York.

MacLeish, Spray, Price & Underwood, 134 South LaSalle Street, Chicago 3, Illinois.

Macleay & Lynch, 1625 K Street, N. W., Washington 6, D. C.

[fol. 2034] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

CERTIFICATE OF SERVICE OF NOTICE OF APPEAL—Filed August 26, 1955

I hereby certify that I have, this 26th day of August, 1955, served copies of (a) Notice of Appeal to the Supreme Court of the United States, (b) Order Staying Decree of December 9, 1954, and Fixing Amount of Supersedeas Bond, (c) Order to Certify and Transmit Original Documents, and (d) Order Correcting Transcripts of Proceedings on June 9, 1953, January 12 and 13, 1954, and April 26, 1955, either personally or by regular mail, postage prepaid, upon the following persons:

Edward Knuff, Assistant to Attorney General, Anti-Trust Division, Department of Justice, Washington, D. C., Attorney for United States of America.

Hugh Lynch, Jr., 1625 K Street, NW, Washington,

D. C., Attorney for Sewell L. Avery and Oliver M. Knode.

Seymour Krieger, 514 Wyatt Building, Washington, D. C., Attorney for National Gypsum Company and Melvin H. Baker.

C. Roger Nelson, Barr Building, Washington, D. C., Attorney for Certain-teed Products Corporation.

Benjamin P. DeWitt, DeWitt, Pepper & Howell, 120 Broadway, New York 5, New York, Attorneys for Newark Plaster Company and Frederick Tomkins.

Joseph S. Rippey, 612 Powers Building, Rochester 14, New York, Attorney for Ebsary Gypsum Company.

Albert E. Hallett, 231 South La Salle Street, Chicago 4, Illinois, Attorney for The Celotex Corp.

Scott Crampton, 815 15th Street, NW, Washington, D. C., Attorney for Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Co.

Hugh Lynch, Jr.

[fol. 2035] SUPREME COURT OF THE UNITED STATES

ORDER NOTING PROBABLE JURISDICTION—January 16, 1956

Appeal from the United States District Court for the District of Columbia.

The statement of jurisdiction in this case having been submitted and considered by the Court, probable jurisdiction is noted.

January 16, 1956

Mr. Justice Clark took no part in the consideration or decision of this question.

OCT 24 1955

HAROLD B. WILLEY, Clerk

IN THE

Supreme Court of the United States

OCTOBER TERM, 1955.

No. ~~485~~ //

UNITED STATES OF AMERICA,
Plaintiff,

vs.

UNITED STATES GYPSUM COMPANY; NATIONAL GYPSUM COMPANY; CERTAIN-TEED PRODUCTS CORPORATION; THE CELOTEX CORPORATION; EBSARY GYPSUM COMPANY, INC.; NEWARK PLASTER COMPANY; SAMUEL M. GLOYD, DOING BUSINESS UNDER THE NAME OF TEXAS CEMENT PLASTER COMPANY; SEWELL L. AVERY; OLIVER M. KNODE; MELVIN H. BAKER; FREDERICK G. EBSARY; AND FREDERICK TOMKINS,
Defendants.

IN RE PETITIONS OF NATIONAL GYPSUM COMPANY, ET AL., *Petitioners and Appellees, vs.* UNITED STATES GYPSUM COMPANY, *Respondent and Appellant.*

JURISDICTIONAL STATEMENT.

BRUCE BROMLEY,
15 Broad Street,
New York 5, New York,

CRANSTON SPRAY,
ROBERT C. KECK,
134 South La Salle Street,
Chicago 3, Illinois,

HUGH LYNCH, JR.,
1625 K Street, N. W.,
Washington 6, D. C.,

Attorneys for Defendant, United States Gypsum Company.

INDEX.

	PAGE
Jurisdiction	2
Opinions Below	3
Questions Presented	4
Statutes and Rules Involved	5
Statement	5-18
A. The Government sues the industry	6
B. USG sues users of its patents	11
C. Appellees petition the District Court	14
D. The Bases of the Decree of December 9, 1954	16
The Questions Are Substantial	19-26
Appendix A—Copies of Opinions, Findings and Conclusions and Decrees Below	A1-A103
Final Decree of May 15, 1951	A1
Majority Opinion, filed July 6, 1954	A13
Minority Opinion, filed July 6, 1954	A58
Findings of Fact, filed Dec. 9, 1954	A63
Conclusions of Law, filed Dec. 9, 1954	A75
Order on Findings and Conclusions, filed Dec. 9, 1954	A79
Decree, filed Dec. 9, 1954	A80
Memorandum, filed Dec. 9, 1954	A82
Order, filed Dec. 9, 1954	A90
Order entered June 30, 1955, denying Motion for New Trial	A91
Opinion on Denying Motion for New Trial, filed June 30, 1955	A92

IN THE

Supreme Court of the United States

OCTOBER TERM, 1955.

No.

UNITED STATES OF AMERICA,

Plaintiff,

vs.

UNITED STATES GYPSUM COMPANY; NATIONAL GYPSUM COMPANY; CERTAIN-TEED PRODUCTS CORPORATION; THE CELOTEX CORPORATION; EBSARY GYPSUM COMPANY, INC.; NEWARK PLASTER COMPANY; SAMUEL M. GLOYD, DOING BUSINESS UNDER THE NAME OF TEXAS CEMENT PLASTER COMPANY; SEWELL L. AVERY; OLIVER M. KNODE; MELVIN H. BAKER; FREDERICK G. EBSARY; AND FREDERICK TOMKINS,

Defendants.

IN RE PETITIONS OF NATIONAL GYPSUM COMPANY, ET AL., *Petitioners and Appellees, vs.* UNITED STATES GYPSUM COMPANY, *Respondent and Appellant.*

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA.

JURISDICTIONAL STATEMENT.

Appellant United States Gypsum Company (hereinafter called USG) appeals from the decree of a three-judge court of the United States District Court for the District of Columbia, entered December 9, 1954, modifying a final

decree of said Court entered May 15, 1951, and submits this Statement to show that the Supreme Court of the United States has jurisdiction of this appeal and that substantial questions are presented.

JURISDICTION.

This appeal is from a decree, entered December 9, 1954, by a three-judge court of the District Court for the District of Columbia. The decree appealed from orders modification of a final decree of that District Court entered May 15, 1951.* The final decree of May 15, 1951, terminated an action, instituted by the United States August 15, 1940, against, among others, USG, National Gypsum Company, Certain-teed Products Corporation, Newark Plaster Company and Ebsary Gypsum Company under Sections 1, 2 and 3 of the Sherman Act (Act of July 2, 1890, 26 Stat. 209, as amended; Title 15 U. S. C., Sections 1, 2, 3 and 4).**

On March 25, April 22, May 15, June 3, and June 30, 1953, respectively, appellees National, Certain-teed, Newark, Ebsary and the United States filed separate petitions in the District Court for orders or directions for the construction, carrying out or enforcement of the final decree of May 15, 1951. On September 9, 1953, USG filed its answers to each of the pending petitions, putting in issue those allegations upon which relief was claimed, and averring additional facts as affirmative defenses. The decree of the District Court in the proceeding on those petitions and answers thereto, entered without the taking

* The decree of May 15, 1951 and the decree of December 9, 1954 are printed in Appendix A, *infra*, pp. A1 and A80, respectively.

** National Gypsum Company will hereinafter be referred to as National; Certain-teed Products Corporation, as Certain-teed; Newark Plaster Company, as Newark; and Ebsary Gypsum Company, Inc., as Ebsary.

of any evidence thereon, is the appealed-from decree of December 9, 1954. A motion for a new trial was filed December 20, 1954, by USG. That motion was denied June 30, 1955, and notice of appeal was filed by USG in the District Court August 26, 1955.

The jurisdiction of the Supreme Court to review the decree of December 9, 1954, by direct appeal is conferred by Title 28, United States Code, Sections 1253 and 2101(b). The following decisions sustain the jurisdiction of the Supreme Court to review on direct appeal the decree in this case:

United States v. *United States Gypsum Company, et al.*, 333 U. S. 364 (1948) and 340 U. S. 76 (1950).

Swift & Co. v. *United States*, 276 U. S. 311 (1928).

United States v. *Swift & Co.*, 286 U. S. 106 (1932).

Missouri-Kansas Pipeline Co. v. *United States*, 312 U. S. 502 (1941).

Chrysler Corporation v. *United States*, 316 U. S. 556 (1942).

Allen Co. v. *Cash Register Co.*, 322 U. S. 137 (1944).

Ford Motor Co. v. *United States*, 335 U. S. 303 (1948).

Hughes v. *United States*, 342 U. S. 353 (1952).

OPINIONS BELOW.

The opinion of the District Court, filed June 30, 1955, denying the motion of USG for a new trial, is reported in CCH Trade Regulation Rep. ¶ 68,112, and is printed in Appendix A hereto, *infra*, p. A92.

The opinion of the District Court, filed December 9, 1954, is unreported and is printed in Appendix A hereto, *infra*, p. A82.

The opinion of the District Court, and the dissenting opinion, filed July 6, 1954, are reported in 124 F. Supp. 573, 598, and are printed in Appendix A hereto, *infra*, pp. A13 and A58.

The opinions of Judges Garrett and Jackson on granting the Government's motion for summary judgment on June 29, 1948, and the dissenting opinions of Judge Stephens with respect thereto, are printed in Appendix A, *infra*, pp. A95, A96 and A101.

QUESTIONS PRESENTED.

Where, after a civil antitrust suit in which a conspiracy to fix prices by means of patent licensing had been charged by the United States against USG and its co-defendant patent licensees, a final decree is entered against defendants, but that final decree does not bar and the Department of Justice does not oppose suits by USG to recover reasonable compensation for use made by others of USG patents prior to entry of the final decree:

(1) Would the filing of such suits by USG against the co-defendant patent licensees in the antitrust suit constitute a misuse of USG patents?

(2) Would the record in this case, including the issues joined by the 1953 petitions and answers thereto, permit adjudication, as a matter of law and without the taking of any evidence, of the issues of patent misuse or purge during all or any part of the period from February 1, 1948,* to entry on May 15, 1951, of the final decree?

---

* February 1, 1948, is the date from which USG claims compensation from the corporate appellees for use of its patents and is the approximate date from which the various corporate appellees stopped paying royalties to USG for their use of its patents. Those refusals to pay, according to the corporate appellees, were prompted by the entry on March 8, 1948, of the opinion of this Court in *United States* v. *United States Gypsum Co., et al.*, 333 U. S. 364.

(3) Would the final decree of May 15, 1951, expressly or by fair intendment, bar USG from seeking reasonable compensation on any theory for use of its patents by its co-defendant patent licensees during the period from February 1, 1948 to May 15, 1951?

(4) Would the basic purposes of the final decree in the antitrust suit authorize modification of that decree to include a provision barring USG from seeking reasonable compensation for use of its patents by its co-defendant patent licensees during the period from February 1, 1948 to May 15, 1951, and subsequent thereto?

(5) Would the District Court have, or should it have taken, jurisdiction to entertain the 1953 petitions of the co-defendant patent licensees or to enjoin suits already commenced by USG against those co-defendants?

STATUTES AND RULES INVOLVED.

Rule 8(a), (e) and (f) of the Rules of Civil Procedure for the District Courts of the United States and Title 35, U. S. C., § 271, are set forth in Appendix B hereto, *infra*, pp. B1 and B3, as is Title 15, U. S. C., Sections 1, 2 and 3 (Sherman Act), *infra*, p. B4.

STATEMENT.

USG has been engaged since 1901 in the production of gypsum and in the manufacture and sale in interstate commerce of gypsum products. Gypsum products, including gypsum plasterboard, gypsum lath, gypsum wallboard and gypsum plaster, are widely used in the construction industry. In 1929, as a part of an industry-wide settlement of multiple suits for patent infringement, agreements were signed in which USG licensed its patents in substantially identical terms to all but two companies then manufacturing gypsum board products east of the Rocky Mountains. Those agreements accorded USG control over the

price and terms of sale of all patented gypsum board manufactured and sold under the license agreements, which was substantially all gypsum board manufactured and sold in that area.

A. The Government Sues the Industry.

On August 15, 1940, the United States instituted in the court below a civil suit under the Sherman Act against USG, five other corporate defendants (including the appellee petitioners National, Certain-teed, Newark and Ebsary), and eight individual defendants. The complaint in that action charged the defendants with conspiring to restrain interstate commerce in gypsum board, gypsum plaster and miscellaneous gypsum products, and with monopolizing, attempting to monopolize and conspiring to monopolize such commerce in violation of Sections 1, 2 and 3 of the Sherman Act.

That 1940 suit thrice previously has been to this Court. In October Term 1947, the Court reversed the judgment of the District Court, made at the close of the Government's case, dismissing the complaint. In their opinion, 333 U. S. 364, 389, the Court said that the industry-wide license agreements entered into by the corporate defendants in 1929

> "with knowledge on the part of licensor and licensees of the adherence of others, with the control of prices and methods of distribution through the agreements and bulletins, were sufficient to establish a *prima facie* case of conspiracy."

The case was remanded to the District Court.

On remand the Government filed a motion for summary judgment under Rule 56, Rules of Civil Procedure. Defendants filed offers of proof negating the material facts of the complaint except the averments that the defendant

companies had entered into license agreements, industry-wide in scope, with minimum price provisions which were adhered to by the parties, with knowledge of the adherence of others.

On June 29, 1948, the District Court (Judge Stephens dissenting) ruled that the motion for summary judgment should be allowed (App. A, *infra*, pp. A95, A96, A101). Thereafter the Government filed its proposed findings of fact and conclusions of law and its proposed decree, and the various defendant companies filed objections thereto and made suggestions with respect to the form of findings, conclusions and decree to be entered. Oral arguments were had before the Court on June 13 and 14, 1949, with respect to such matters, and on November 7, 1949, the District Court entered its decree without other findings than those contained in the decree.

After a preliminary statement, the decree of November 7, 1949, found jurisdiction (Art. I); listed certain license agreements between the defendant companies (Art. II); declared that the defendant companies "have acted in concert in restraint of trade * * * to fix, maintain and control the prices of gypsum board, and have monopolized such trade in violation of Sections 1 and 2 of the Sherman Act (Art. III); adjudged the license agreements listed therein unlawful under the antitrust laws and illegal, null and void (Art. IV); enjoined the defendant companies against enforcement or performance of the license agreements and against similar violations of the antitrust laws (Art. V); provided for limited compulsory licensing (Art. VI); provided that the decree should not affect anything permitted by Act of Congress (Art. VII); approved the forms of license agreements theretofore filed with the Court by USG (Art. VIII); reserved jurisdiction of the cause (Art. IX) and provided for taxing costs (Art. X).

Both the Government and USG took direct appeals to this Court from the decree of November 7, 1949. USG appealed on the ground of its right to introduce material evidence. This Court dismissed that appeal (339 U. S. 959). The reason for the dismissal was later stated by this Court as follows:

> "* * * we read the preliminary statement of the District Court to the decree and the summary decree itself as an adjudication of violation of the Sherman Act by the action in concert of the defendants through the fixed-price licenses, accepting as true the underlying facts in defendants' proof by proffer. The trial judges understood the summary judgment to be, as Judge Stephens said, 'limited to that one undisputed question.' Judge Garrett and Judge Jackson agreed. That conclusion entitled the Government only to relief based on that finding and the proffered facts. On that basis we dismissed United States Gypsum's appeal from the decree, and on that basis we examine the Government's objection to the decree." (340 U. S. 76, 88.)

Probable jurisdiction was noted, however, on the appeal of the Government (339 U. S. 960). In that order noting probable jurisdiction, and for the same reason that they had dismissed USG's appeal, the Court affirmed Article III of the District Court decree and enjoined the corporate defendants, pending further order of the Court, from enforcing in any manner whatsoever the provisions of their license agreements fixing, maintaining or stabilizing prices of gypsum board or the terms and conditions of sale thereof, and from entering into or performing any agreement or understanding in restraint of trade and commerce in gypsum board by license agreements to fix, maintain or stabilize prices of gypsum board or by license or other concerted action arranging the terms and conditions of sale thereof.

The issues for determination on the appeal of the Government had to do with an enlargement of the provisions of the District Court decree which the court considered, granting some of the Government's requests and rejecting others. The approval by this Court of some of the Government's proposals made it necessary to reverse the decree of the District Court and to remand the cause for further proceedings in conformity with the opinion of this Court (340 U. S. 76).

After hearing argument for all parties and upon consideration of several forms of decree submitted by parties to it, a decree was entered by the District Court on May 15, 1951; which was approved as to form by plaintiff and defendants. None of the parties appealed from that final decree.

The decree of May 15, 1951, followed the general form of the prior decree of November 7, 1949, which it was replacing.* The preliminary statement was in substantially the same form except for the added reference to the proceedings following the entry of the November 7, 1949 decree. Articles I, II, III and IV were identical with those articles in the November 7, 1949 decree.

Article V enjoined the defendant companies and their respective officers, etc., from entering into or performing any agreement or understanding among them or other manufacturers of gypsum products to fix, maintain or stabilize prices or terms or conditions of sale of gypsum products "by patent license agreements or other acts or course of action," and specifically enjoined the carrying on of certain pricing and selling practices "pursuant to such an agreement or understanding." Article VI contained a provision for compulsory licensing, at reasonable

* The decree of November 7, 1949 appears at R. 12340-12347 and is abstracted in this statement, *supra*, p. 7. The decree of May 15, 1951 is printed in Appendix A, *infra*, p. A1.

royalty, under USG patents or applications for patents relating to gypsum board, then owned or controlled by USG or issued to or applied for or acquired by it within five years from the date of the decree. Article VII provided that the decree should not affect anything permitted by Act of Congress; Article VIII gave the Department of Justice certain rights of investigation; Article IX assessed costs among the defendant companies; and Article X contained the reservation of jurisdiction for the purpose of permitting application to the District Court for such orders, etc. "as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith."

None of the proposed findings of fact, conclusions of law or decrees submitted to the District Court by the Government or by the defendants in connection with either the decree of November 7, 1949, or the unappealed final decree of May 15, 1951, dealt in any way with the right of any person, co-conspirator or otherwise, to use USG patents without compensation during the period from the first Supreme Court opinion (333 U. S. 364, March 8, 1948) to entry of the final decree. Indeed, the amended complaint in the suit of the Government had included a prayer for relief covering an injunction against suits by USG for compensation or damages for unauthorized use of patents. However, the Government never requested during the hearings that preceded either the formulation of the November 7, 1949 decree or the final decree of May 15, 1951 that the District Court grant that relief. The prayer was obviously abandoned.

B. USG Sues Users of Its Patents.

On May 16, 1951, the day after entry of the final decree by the District Court, USG wrote each of its co-defendant licensees saying that it intended to comply strictly with the provisions of the decree in every respect and, referring to the old license contracts, noted that all their provisions have "heretofore become and now are wholly cancelled and of no effect." In its letters USG also referred to the fact that royalties had not been paid under such agreements nor had USG sought to collect such royalties, but it had merely "stood upon our right to be compensated for the reasonable value of any use you may have made of our patents."

None of the defendant licensees thereafter made any move to challenge this position before the Court or otherwise. National and Certain-teed subsequently made applications, pursuant to the provisions of Article VI of the final decree, for licenses under certain patents of USG, which licenses were granted. Those licenses were effective as of the date of the decree (May 15, 1951), and provided for royalty at one per cent (1%) of the selling price of all gypsum board manufactured and sold thereunder embodying or made by the use of the inventions set forth and claimed in the patents.

In letters from USG originally submitting a form of license to National and to Certain-teed pursuant to their respective applications therefor, and in letters transmitting the new licenses for final excecution, and in letters acknowledging receipt of the first royalty payments thereunder, USG made it clear that nothing done in that connection should be construed as a waiver or release of any claim USG might have against the licensee for any use which such licensee may have theretofore made of any USG patents. National signed and returned its license

without question; Certain-teed signed and returned its license "without recognition or acceptance of the existence or validity" of any such claim. Neither Newark nor Ebsary ever have applied for a license pursuant to Article VI of the final decree nor have they ever compensated USG for their continued use of USG patents since 1948.

When it became obvious that National, Certain-teed, Newark and Ebsary did not intend to pay for their use of USG patents during the 1948-51 period, USG was faced with the alternatives of bringing suits to recover or of forfeiting its claims.*

Accordingly, on January 28, 1953, USG sued National in the United States District Court for the Northern District of Iowa; on January 30, 1953, it sued Newark in the United States District Court for the District of New Jersey; on February 28, 1953, it sued Ebsary in the United States District Court for the Southern District of New York; and on March 11, 1953, it sued Certain-teed in the United States District Court for the Northern District of Iowa.

When USG determined to sue, it became necessary to draft a complaint that would meet all factual situations that might develop upon the trial of the case. Clearly, if it could be established that the license agreements had been abandoned and repudiated by the parties following the first decision of this Court, then, of course, the subsequent use of the patents laid the users open to liability on a *quantum meruit* or infringement count. On the other hand, if USG were to confine its claim to one of *quantum meruit* or infringement and a defendant was to defend by

* Although the statute of limitations for patent infringement is fixed by Federal statute at six years, the statutory period in the State of Iowa, for example, for claims on express contracts, or contracts implied by law, is five years (Iowa Laws, 1950, Ch. 614).

claiming the right to use the patent under its old license agreement,* USG would be confronted with the possibility of a court concluding that there was an unasserted claim under the contract that defeated recovery on *quantum meruit* or for infringement.**

Thus, each complaint in those four suits contains a count for royalties due for actual use of the plaintiff's patents, based on the royalties provided for under the prior license agreement between USG and the respective defendant (Count I); a count for such royalties due under such agreement, as amended (Count II); a count of *indebitatus assumpsit*, for recovery of compensation for the actual use of USG's patents under circumstances from which the law would imply a promise to pay (Count III); a count of *quantum meruit*, seeking recovery of reasonable value for use of USG patents (Count IV); and a count or counts for their infringement (Counts V, VI). Since the granting of licenses, both before and after the period covered by the respective complaints had established, by arm's length negotiations, the reasonable value of the use of the patents at 1% of the purchase price of the product embodying or made by use of the patents licensed, and since recovery under each count was limited to board involving actual use of the patents, the *ad damnum* in the various counts was the same, except in the *quantum meruit* and infringement counts

* The eighth defense of National to Count V of the Iowa suit actually raises this very defense.

** That such a possibility existed seemed likely for two reasons: first, the District Court did not strike down the USG license agreements because they were inherently illegal or improper, but rather because of a conspiracy established by the concerted action among the defendant companies, which conspiracy was collateral to each separate license agreement as such; and, second, the royalty provisions of those license agreements are severable from the price limitation provisions and therefore could be deemed to support recovery of royalties during the period the license was in effect, even though USG would not be able to enforce the price-fixing provisions.

of the Newark and Ebsary suits where a longer period of time was involved since those companies never took the licenses authorized by Article VI of the decree, but continued, nonetheless, to use USG patents after the date of the final decree of May 15, 1951.*

Answers were filed by National and Certain-teed in their respective suits joining issue on all material averments and pleading specially, among other things, that each suit was barred by the final decree of May 15, 1951. Proceedings were stayed in the two suits in the Iowa court pending the outcome of the instant proceeding. Issue has not as yet been joined in the Newark and Ebsary suits.

C. Appellees Petition the District Court.

Commencing with the petition filed by National on March 25, 1953, each of the corporate appellees (the defendants in the suits brought by USG) had by June 3, 1953, filed separate petitions in the court below. The petition of National sought an adjudication that the suit brought against it by USG for compensation for the actual use of USG patents between 1948 and 1951 was in violation of the final decree of May 15, 1951, and, in the alternative, urged that the final decree be modified by an order, compelling dismissal of the USG suit, with prejudice, and enjoining USG from instituting any other suit seeking compensation for the use of USG patents by National for any period of time prior to May 15, 1951.

The petition filed by Certain-teed on April 22, 1953, was substantially identical with that of National in its theory of and prayer for relief. The two petitions filed May 15, 1953 and June 3, 1953, respectively, by Newark

* Substantial amounts are claimed by USG. Thus, it seeks to recover the amount of $1,600,000 from National; the amount of $100,000 from Ebsary; the amount of $120,000 from Newark; and the amount of $650,000 from Certain-Teed.

and Ebsary were also closely similar to the National petition, except that they not only prayed that the claims of USG for use of its patents in the period prior to entry of the final decree be barred but also asked that the District Court bar USG claims for use of its patents in the two-year period subsequent to May 15, 1951.

At a preliminary hearing June 9, 1953, the corporate petitioners assured the District Court that they made no claim of antitrust violation by USG, except as the filing by USG of its suits for reasonable compensation might be considered such a violation.

On June 30, 1953, the United States also petitioned the court below. It asked that the District Court hold as barred by the final decree of May 15, 1951, any recovery by USG in its compensation suits that was based on the license agreements that were adjudged illegal, null and void by Article IV of the final decree. However, the petition of the United States expressly stated that in so far as any compensation suits by USG asserted claims for the reasonable value of the use of the USG patents or for due compensation for the infringement of such patents (being Counts III, IV and V in the National and Certain-teed suits, and Counts III, IV, V and VI in the Newark and Ebsary suits), the United States took no position as to whether such alternative claims were barred by the final decree of May 15, 1951, or as to whether the District Court should enter an order enjoining USG from prosecuting such alternative claims.

On July 6, 1954, the District Court, one judge dissenting, filed an opinion, ruling, among other things, that further prosecution of the USG suits should be enjoined. On December 9, 1954, the District Court, without having taken any evidence on the factual issues raised by the 1953 petitions and the answers of USG thereto, entered a decree,

amending the final decree of May 15, 1951, by adding to it a paragraph directing USG to dismiss, with prejudice, its pending actions against the four corporate petitioners.*

D. The Bases of the Decree of December 9, 1954.

The District Court decree of December 9, 1954, modifying the final judgment of May 15, 1951, rests upon a few simple facts and legal postulates. First, the court below noted that in the USG compensation suits against the corporate appellees, Counts I and II of each of the four USG complaints are based, directly or indirectly, upon the terms of the license agreements proscribed by the final decree of May 15, 1951; that Count III of those complaints is a common law count of *indebitatus assumpsit,* upon a pleaded express contract, the terms of which are so stated as to bring about recoveries identical with those that would be accorded by action brought upon the proscribed agreements; that Count IV of the USG complaints is for *quantum meruit,* covering the use by defendants of USG patents; and that Counts V and VI of the USG complaints allege infringement of USG patents [Findings 27-30; *infra,* App. A, p. A73]. Second, the District Court recognized that the corporate appellees had based their petitions upon three grounds—upon the terms of the final decree of May 15, 1951; upon a theory of misuse of patents; and upon a plea that District Court action could prevent a multiplicity of

* The three-judge court which had entered the final decree of May 15, 1951, had consisted of Judge Harold M. Stephens, Judge Finis J. Garrett and Judge Joseph R. Jackson. On May 7, 1953, Judge William P. Cole replaced Judge Jackson on the three-judge court, and, on December 1, 1953, Judges Stephens and Garrett resigned, to be replaced, respectively, by Judge Kimbrough Stone and Judge Eugene Worley. Thus, the personnel of the three-judge court that entered the decree of modification on December 9, 1954, was entirely different from that which had heard the case originally and had entered the decree of November 7, 1949, and the final decree of May 15, 1951.

suits [Finding 36; *infra,* App. A, p. A75]. And, finally, the District Court premised that if in, or after, the period for which USG sought compensation, USG had misused its patents, prosecution of the compensation suits would weaken the final decree and should be barred.

After making the observations set forth above, the District Court then reasoned that inasmuch as Article IV of the final decree had nullified the license agreements upon which USG had bottomed Counts I and II of its complaints, USG should be enjoined from prosecuting those Counts [Conclusion 7; *infra,* App. A, p. A77].

But the District Court also concluded that Article IV of the final decree

> "did not expressly nor impliedly cover the character of suits now brought by USG for infringement or for *indebitatus assumpsit* or for *quantum meruit.* It neither allowed nor forbade such." [Conclusion 7; *infra,* App. A, p. A77.]

Despite its conclusion that the final decree of May 15, 1951, did not proscribe recovery under those three additional legal theories, the District Court nonetheless modified that final decree to require such proscription. Thus, it disposed of the *indebitatus assumpsit* count

> "as a left-handed, indirect method for recovering the royalties provided in the illegal license agreements." [Conclusion 14; *infra,* App. A, p. A78.]*

---

* The District Court in its Conclusion 14, as well as in its Finding 28 that Count III was upon a pleaded express contract the terms of which were so stated as to bring about identical recoveries with those that would be accorded by action upon the proscribed agreements, apparently overlooked the fact that Count III expressly avers a rescission of the old license contracts and seeks recovery for use of the patents after such rescission, and therefore for a period not covered in any way by the old license contracts.

It disposed of the *quantum meruit* count on the ground that

> "the attempt by USG to enforce the royalty provisions of the illegal patent license agreements is a clear misuse of its patents [and] * * * the *quantum* counts, are enjoined on the basis of preventing recovery in a multiplicity of suits wherein the misuse of the patents * * * is shown, as a matter of law to exist and not to have been purged." [Findings 13, 15; *infra*, App. A, p. A78.]

Prosecution of the USG suits in so far as they were based on patent infringement was enjoined

> "both because of the practical and legal situation in the case, and also, [because of] the teaching in the *Hartford-Empire* case."* [Finding 16; *infra*, App. A, pp. A78-A79.]

---

* That the District Court concluded that the mere pleading by USG of Counts I and II of its complaints in the compensation suits constituted a misuse of patents is amply borne out by its opinion of July 6, 1954, and by its findings and conclusions of December 7, 1954."

Thus, in its opinion of July 6, 1954, the District Court observed (*infra*, App. A., p. A56):

> "The USG suits now pending show conclusively that even yet it is striving to enforce the royalty provisions of the illegal patent license agreements.
>
> "We think such an attempt is clear misuse of its patents. * * *"

In its findings and conclusions of December 7, 1954, the District Court observed (*infra*, App. A., p. A78):

> "The course of conduct of USG, * * * must be construed as meaning that USG has continued after May 15, 1951, to misuse its patents by seeking recovery, directly and indirectly, on the illegal license agreements up to this time. The attempt by USG to enforce the royalty provisions of the illegal patent license agreements is clear misuse of its patents; such misuse yet continues; and to allow prosecution of these suits, would weaken the effectiveness of the Final Decree." [Conclusion 13.]

THE QUESTIONS ARE SUBSTANTIAL.

The District Court noted that this proceeding involves problems akin to those raised in *Hartford-Empire Co., et al.* v. *United States,* 323 U. S. 386, and *Hartford-Empire Co., et al.* v. *United States,* 324 U. S. 570. Those decisions held that corporate defendants, by a system of patent license agreements, had pooled patents in violation of Sections 1 and 2 of the Sherman Act and Section 3 of the Clayton Act. Findings in that case, affirmed by this Court, declared that, as a result of such illegal patent control, the invention of glass-making machinery had been discouraged and competition in the licensing of such machinery as well as competition in the manufacture of unpatented glassware had been suppressed. *Hartford-Empire Co., et al.* v. *United States,* 323 U. S. 386, 400.

Despite those consequences of concerted patent misuse, this Court declared that the patent licensor, Hartford-Empire, unless it had "been guilty of some added violation of the antitrust laws" during the pendency of the litigation, was entitled to recover reasonable compensation for use by others in that period of its valid patents.

This much of the rationale of the *Hartford-Empire* case the court below seems to have accepted. That court erred, however, by concluding that USG had misused its patents, and thus committed an added violation of the anti-trust laws, by "seeking recovery, directly and indirectly [in its compensation suits], on the illegal license agreements." That conclusion put the decision of the District Court in conflict with (a) the rulings of this Court in the *Hartford-Empire* case; (b) the requirements of the *Rules of Civil Procedure for the District Courts of the United States,*

particularly Rule 8 thereof (*infra*, App. B, p. B1); and (c) the provisions of Title 35, U. S. C., § 271 (d) (*infra*, App. B, p. B3).

1. This Court in the *Hartford-Empire* case recognized that it is not a violation *per se* of the antitrust laws for a patentee that has licensed its patents under illegal agreements to seek reasonable compensation for use made of those patents during the pendency of antitrust litigation. Thus, in its first opinion in the *Hartford-Empire* case (323 U. S. 386, 411), this Court directed that Hartford-Empire be paid those royalties that during the pendency of that case would have gone to it under the terms of its illegal license agreements, but which, in fact, had been collected by a court-appointed receiver. The Government petitioned for a rehearing from that decision, asserting that there were ambiguities in the final decree. This Court then, with appropriate instructions, ordered the District Court to supervise the turn-over to Hartford-Empire of the royalties. Under its instructions from this Court, the principal duty of the District Court was to decide whether Hartford-Empire, during the pendency of the litigation, had been guilty of some added violation of the antitrust laws that disqualified it from collecting compensation for the use of its patents in that period. This Court did not regard assertion by Hartford-Empire of claims for use made of its patents while litigation was pending as misuse of those patents in violation of the antitrust laws. And the District Court, when it found that Hartford-Empire had not violated the antitrust laws *pendente lite*, ultimately ordered a substantial part of the royalties that had been collected by the receiver to be paid over to Hartford-Empire.

In the *Hartford-Empire* case, this Court made clear that

the relevant criteria for determining whether to allow reasonable compensation to a patentee for use by others of its valid patents during pendency of an antitrust suit must be sought in that part of the record that illuminates the consequence of the claimed recovery upon the economy and upon the purposes of the patent laws. *Hartford-Empire Co., et al.* v. *United States,* 323 U. S. 386, 409, 415. Under such a test, the record in this case leaves groundless any conclusion to withhold the reasonable compensation claimed by USG. As has been noted, the corporate appellees have conceded that USG did not fix or attempt to fix any price subsequent to 1941 under the patent license agreements and did not in any other way misuse its patents during the pendency of the antitrust litigation. Moreover, this Court noted, when passing on the appeal of the Government from the final decree of November 7, 1949, that both that summary decree and its underlying adjudication of violation of the Sherman Act accepted

> "as true the underlying facts in defendants' proof by proffer * * * That conclusion entitled the Government only to relief based on that finding [the Sherman Act violation] and the proffered facts."

The proffered facts that underlay the final decree of November 7, 1949, and that alone underlie the final decree of May 15, 1951, and the appealed-from decree of December 9, 1954, established that the proscribed license agreements were entered into to dissolve complicated conflicts over patents that theretofore had been thwarting development of wallboard technology. The record does not support an inference that freedom of entrance had been foreclosed to any of those segments of the economy affected by the illegal patent licenses. The record does not support

a claim that there had ever been exorbitant royalty charges. Indeed, the "reasonable" royalties that have been paid under the compulsory patent license agreements granted by USG since the final decree of May 15, 1951, are calculated at the same rate, as to the patented goods, as were the royalties charged under the outlawed agreements.

On facts favoring compensation that were far less persuasive than those in the instant action, this Court, in the *Hartford-Empire* case, held itself compelled to order reasonable compensation to be paid to the patentee. The decree below is in conflict, therefore, with the decision of this Court in the *Hartford-Empire* case.

2. The decision below, also, raises substantial questions involving the *Rules of Civil Procedure in District Courts of the United States,* particularly Rule 8 thereof. Those important questions arise because the District Court held both that the final decree of May 15, 1951, did

> "* * * not expressly nor impliedly cover the character of suits now brought by USG for infringement or for *indebitatus assumpsit* or for *quantum meruit*"

and that

> "The USG suits now pending show conclusively that even yet it is striving to enforce the royalty provisions of the illegal patent license agreements.
> "We think such an attempt is clear misuse of its patents * * *."

The District Court did not regard those twin holdings as anomalous, because, to the District Court, the mere pleading by USG of Counts I and II in its compensation suits amounted to a misuse of patents.

But at least since 1938, it has been the rule in courts of the United States that the statement of separate causes of

action or counts in a pleading is only a statement of the same claim in the light of different legal theories. Although "count" pleading is permitted under federal practice, the sole function of a complaint in a District Court is to give "a simple statement in sequence of the events which have transpired, coupled with a direct claim by way of demand for judgment of what the plaintiff hopes and expects to recover." *Gins* v. *Mauser Plumbing Supply Co., Inc.*, 148 F. 2d 974, 976 (2d C. A. 1945). Once a plaintiff has so stated his claim, the final theory of recovery is for the court rather than the pleader. This concept of federal pleading is clearly expressed in Rule 8 of the Rules of Civil Procedure.*

The Government has implicitly acknowledged the correctness of the above analysis. The petition of the Government only requested that the District Court expressly adjudge that the proscribed license agreements could not be used to bottom any theory of recovery to USG. The Government raised the plausible objection that when a court has declared a patent licensing contract "illegal, null and void" under the antitrust laws, that decision should remove the patent license as a font of rights justifying payment of royalties.

But to accept the contention of the Government does not force, as the Government recognized, the conclusion that the mere alternative submission of such a legal theory to a court is a misuse of patents. Engrossment in a federal

* Thus, Subsection (a) of Rule 8 reads:

"Relief in the alternative or of several different types may be demanded."

and Subsection (e) of the same Rule allows a party to

"* * * set forth two or more statements of a claim * * * alternatively or hypothetically, either in one count * * * or in separate counts. * * *"

pleading of a count on contracts debilitated by an antitrust decree cannot be, under modern concepts of pleading, a misuse of those patents that the contracts purport to license.

Since inclusion of a count on the proscribed agreements cannot, under the rules that govern federal pleading, bar recovery on other appropriate theories, it follows that the decree of December 9, 1954, is erroneous.

3. The decision of the District Court that a continuing misuse by USG of its patents exists, as a matter of law, because USG seeks compensation from its co-conspirators for their use of USG patents, conflicts with the public policy now conclusively established by the recent codification of the patent laws.* Title 35, U. S. C. § 271(d), provides in its relevant portions:

> "No patent owner otherwise entitled to relief for infringement * * * shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: * * * (3) sought to enforce his patent rights against infringement or contributory infringement."

A patentee's right to receive compensation for either authorized or unauthorized use of its patents is clearly an enforcible right within the meaning of the new codification. Since it is the declared policy of that codification that the mere bringing of a patent infringement suit is not misuse, then *a fortiori*, a suit, pleading counts on a license agreement (such as Counts I and II), solely for the recovery of money does not in itself constitute a misuse.

---

* This codification (Title 35, U. S. Code) of the patent laws went into effect January 1, 1953. The USG compensation suits were filed thereafter.

Moreover, this disregard of Section 271(d) conflicts with Article VII of the final decree of May 15, 1951, which expressly provides that nothing contained in the decree shall be deemed to have any effect upon the operation or activities of the defendants which are authorized or permitted by any present or future Act of Congress, or any amendment thereto (*infra,* Appendix A, pp. A10-A11).

4. This Court, while acknowledging their adherence to trial court responsibility in the molding of antitrust decrees designed to restore freedom of interstate trade, has never treated that trial court power as one of discretion, subject to reversal only for gross abuse. *United States* v. *United States Gypsum Co., et al.,* 340 U. S. 76, 89. The Supreme Court has recognized an obligation to examine the decretal phase of all such cases on a showing that there is likelihood that inappropriate provisions have been imbedded in a final decree. *Standard Oil Co.* v. *United States,* 221 U. S. 1, 78-82; *United States* v. *American Tobacco Co.,* 221 U. S. 106, 184-188; *United States* v. *Crescent Amusement Co.,* 323 U. S. 173, 185-187; note especially *Hartford-Empire Co., et al.* v. *United States,* 323 U. S. 386, 409-435.

It is submitted that the decree of the District Court of December 9, 1954, is inappropriate for failure to recognize the rule of decision of this Court in *Hartford-Empire Co., et al.* v. *United States,* 323 U. S. 386, and *Hartford-Empire Co., et al.* v. *United States,* 324 U. S. 570; for conflict with accepted law regarding pleading in federal courts, particularly with Rule 8 of the Rules of Federal Procedure in the District Courts of the United States; for disregard of express provisions of Title 35, U. S. C., § 271(d); and for disposing of the misuse and purge issues as a matter

of law and without the taking of any evidence. We believe that the questions presented by this appeal are substantial and that they are of public importance.

Respectfully submitted,

BRUCE BROMLEY,
CRANSTON SPRAY,
ROBERT C. KECK,
HUGH LYNCH, JR.,
Attorneys for Defendant, United States Gypsum Company.

CRAVATH, SWAINE & MOORE,
15 Broad Street,
New York 5, New York.

MACLEISH, SPRAY, PRICE & UNDERWOOD,
134 South La Salle Street,
Chicago 3, Illinois.

MACLEAY, LYNCH & MACDONALD,
1625 K Street, N. W.,
Washington 6, D. C.
Of Counsel.

APPENDIX A.

FINAL DECREE, MAY 15, 1951.

IN THE UNITED STATES DISTRICT COURT
For the District of Columbia.

UNITED STATES OF AMERICA, *Plaintiff,* *vs.* UNITED STATES GYPSUM COMPANY; NATIONAL GYPSUM COMPANY; CERTAIN-TEED PRODUCTS CORPORATION; THE CELOTEX CORPORATION; EBSARY GYPSUM COMPANY, INC.; NEWARK PLASTER COMPANY; SAMUEL M. GLOYD, Doing Business Under the Name of TEXAS CEMENT PLASTER COMPANY; SEWELL L. AVERY; OLIVER M. KNODE; MELVIN H. BAKER; FREDERICK G. EBSARY; and FREDERICK TOMKINS, *Defendants.*	Civil Action No. 8017.

PRELIMINARY STATEMENT.

This cause came on for trial before this Court on November 15, 1943. At the conclusion of plaintiff's presentation of the case, defendants moved, pursuant to Rule 41(b) of the Federal Rules of Civil Procedure, for judgment dismissing the complaint on its merits. The motion of defendants was granted August 6, 1946. The judgment so rendered by this Court was reversed by the Supreme Court of the United States, and the case was remanded to this Court for further proceedings in conformity with the opinion of the Supreme Court (333 U. S. 364).

Following the remand, the plaintiff, pursuant to Rule 56 of the Federal Rules of Civil Procedure, moved for summary judgment in its favor upon the pleadings and all of the proceedings which theretofore had been had in the

case, or, in the alternative, for such further proceedings as this Court might direct, and defendants, by direction of the Court, filed proffers of proof.

Argument by counsel for the respective parties upon the motion of plaintiff was heard by the Court, and after due consideration of such argument and of defendants' proffers of proof, Garrett, J. and Jackson, J., constituting a majority of the Court, announced a ruling to the effect that plaintiff's motion for summary judgment would be granted, and Stephens, J., who presided during the trial, announced his dissent from such ruling.

Thereafter counsel for plaintiff and counsel for certain of the defendants submitted forms of final decrees for the consideration of the Court and also suggested findings of fact, the latter to be considered in the event the Court should deem it necessary to make any findings of fact additional to those originally found by it and to those stated in the opinion of the Supreme Court.

In due course, the Court heard arguments respecting the proposed decrees and the suggested findings of fact, and full consideration was given thereto and to all prior proceedings—all being considered in the light of the decision of the Supreme Court which, as understood by the majority of this Court, held that the defendants acted in concert to restrain trade and commerce in the gypsum board industry and monopolized said trade and commerce among the several states in that section hereinafter referred to as the eastern territory of the United States, which section embraces all the states of the United States westward from the eastern coast thereof to the Rocky Mountains and including New Mexico, Colorado, Wyoming, and the eastern half of Montana.

Thereafter this Court, on November 7, 1949, entered its decree sustaining plaintiff's motion for summary judgment and granting relief which it deemed appropriate to

its adjudication. Plaintiff thereupon appealed to the Supreme Court seeking to have the scope of the relief enlarged, and certain defendants appealed to the Supreme Court for a reversal of the judgment, which latter appeal was dismissed by the Supreme Court on May 29, 1950. On November 27, 1950, the Supreme Court rendered an opinion on the plaintiff's appeal, affirming this Court's adjudication of Sherman Act violation, holding there was concerted action through the fixed-price licenses and accepting as true the underlying facts in the defendants' proof by proffer. Nevertheless, the Supreme Court reversed the decree heretofore entered herein and remanded the cause to this Court with instructions to modify its decree and for further proceedings in conformity with its opinion.

Upon remand, this Court, after ordering counsel for the plaintiff and for the defense to submit forms of decree in conformity with the Supreme Court opinion and after considering such forms has modified its decree of November 7, 1949, in accordance with the Supreme Court's opinion of November 27, 1950.

DECREE.

IT IS THEREFORE ORDERED, ADJUDGED AND DECREED:

ARTICLE I.

This Court has jurisdiction of the subject matter hereof and of the parties hereto. The complaint states a cause of action against defendants under the Act of Congress of July 2, 1890, entitled "An Act to Protect Trade and Commerce Against Unlawful Restraints and Monopolies," commonly known as the Sherman Antitrust Act, and acts amendatory thereof and supplemental thereto.

ARTICLE II.

As used in this decree:

1. "Defendant companies" shall mean all of the corporate defendants and Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company.

2. "Gypsum board" shall mean plaster board, lath, wallboard, special surface board, sheathing, liner board (including any such product which is perforated or metalized) made from gypsum.

3. "Gypsum products" shall mean gypsum board as defined in the preceding paragraph, and plaster, block, tile and Keene's cement made from gypsum.

4. "Patents" shall mean United States Letters Patent and applications for United States Letters Patent relating to gypsum board, its processes, methods of manufacture or use, now owned or controlled by defendant United States Gypsum Company and issued to, applied for or acquired by defendant United States Gypsum Company within a period of five (5) years from the date of this decree, including Letters Patent issued upon any of said applications, and continuations in whole or in part, renewals, reissues, divisions and extensions of any such Letters Patent or applications for Letters Patent.

5. "Patent Licenses" shall mean the patent license agreements which were in effect between defendant United States Gypsum Company and each of the other defendant companies at the time the complaint herein was filed and described in said complaint as follows:

Agreement dated October 15, 1929, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee;

Agreement dated October 17, 1929, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee;

Agreement dated October 18, 1929, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee;

Agreement dated November 5, 1929, between United States Gypsum Company, as licensor, and Universal Gypsum and Lime Company (National Gypsum Company, as Assignee), as licensee;

Agreement dated November 25, 1929, between United States Gypsum Company, as licensor, and American Gypsum Company (The Celotex Corporation, as Assignee), as licensee;

Agreement dated April 23, 1930, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Co., as Assignee), licensee;

Agreement dated February 10, 1937, between United States Gypsum Company, as licensor, and Texas Cement Plaster Company, as licensee;

Agreement dated October 5, 1934, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee (Metallized board);

Agreement dated October 12, 1934, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Company, as Assignee), as licensee (Metallized board);

Agreement dated November 2, 1934, between United States Gypsum Company, as licensor, and Certainteed Products Corporation, as licensee (Metallized board);

Agreement dated December 4, 1934, between United States Gypsum Company, as licensor, and American Gypsum Company (The Celotex Corporation, as Assignee), as licensee (Metallized board);

Agreement dated August 14, 1935, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Metallized board);

Agreement dated June 8, 1938, between United States Gypsum Company, as licensor, and Certainteed Products Corporation, as licensee (Perforated lath);

Agreement dated September 16, 1938 between

United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee (Perforated lath);

Agreement dated February 2, 1937, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Perforated lath);

Agreement dated September 16, 1938, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Perforated lath);

Agreement dated June 23, 1937, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Company, as Assignee), as licensee (Perforated lath);

Agreement dated January 3, 1939, between United States Gypsum Company, as licensor, and Newark Plaster Company, as licensee (Perforated lath);

and any supplement or amendment to any of said patent license agreements.

ARTICLE III.

The defendant companies have acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board and have monopolized trade and commerce in the gypsum board industry in violation of sections 1 and 2 of the Sherman Antitrust Act.

ARTICLE IV.

Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void.

ARTICLE V.

The defendant companies, and their respective officers, directors, agents, employees, representatives, subsidiaries, and any person acting or claiming to act under, through or for them, or any of them, be and each of them hereby is enjoined from entering into or performing any agreement or understanding among the defendant companies or other manufacturers of gypsum products to fix, maintain or stabilize, by patent license agreements or other acts or course of action, the prices, or the terms or conditions of sale, of gypsum products sold or offered for sale to other persons, in or affecting interstate commerce; and from engaging in, pursuant to such an agreement or understanding, any of the following acts or practices:

(1) agreeing upon any basis for the selection or classification of purchasers of gypsum products;

(2) refraining from selling gypsum products to any purchaser or any class of purchasers;

(3) agreeing upon any plan of selling or quoting gypsum products at prices calculated or determined pursuant to a delivered price plan which results in identical prices or price quotations at given points of sales or quotation by defendants using such plan;

(4) policing, investigating, checking or inquiring into the prices, quantities, terms or conditions of any offer to sell or sale of gypsum products.

ARTICLE VI.

1. Defendant United States Gypsum Company is hereby ordered and directed to grant to each applicant making application therefor, but only in so far as it has the right to do so, a non-exclusive license to make, use and vend under any, some or all patents as hereinbefore defined, at a reasonable, non-discriminatory royalty or royalties therefor. Defendant United States Gypsum Company is hereby

enjoined from making any sale or other disposition of any of said patents which deprives it of the power or authority to grant such licenses unless it requires as a condition of such sale, transfer or assignment that the purchaser, transferee or assignee shall observe the requirements of Articles VI and VIII of this decree, and unless the purchaser, transferee or assignee shall file with this Court, prior to or as a part of the consummation of said transaction, an undertaking to be bound by said articles of this decree.

2. Defendant United States Gypsum Company is hereby enjoined from including any restriction or condition whatsoever in any license or sublicense granted by it pursuant to the provisions of this article, except that (a) the license may be indivisible and non-transferable; (b) a reasonable, non-discriminatory royalty may be charged, which royalty may not be imposed upon or measured by patent-free products, processes or uses; (c) provision may be made requiring licensee to keep full and accurate records of the gypsum board manufactured and sold by it under any such patent and requiring licensee to make appropriate reports to licensor as to the royalty due, but such reports shall not disclose the selling price of the board or disclose a breakdown of the size or thickness of the board sold; (d) reasonable provision may be made for periodic inspection of the books and records of the licensee by an independent auditor, or by any person acceptable to the licensor and licensee, who shall report to the licensor only the amount of royalty due and payable; (e) reasonable provision may be made for marking the gypsum board manufactured or sold under the licensed patent; and (f) reasonable provision may be made for cancellation of the license upon failure of the licensee to pay the royalty or to permit the inspection of its books and records or for other material breach of the terms of the license agreement by licensee, or in the event licensee shall be adjudged a bank-

rupt. The license agreement shall be in writing signed by the parties thereto and shall to the extent that licensor has the right to do so, grant to the licensee the full right to make, use and vend the inventions and improvements described in the claims of each patent licensed, in the manufacture, sale or use of gypsum board, for the full term of the patent and any renewal, reissue, division, or extension thereof, and may contain the provisions hereinabove set forth and such other lawful provisions as may be agreed upon between the parties thereto and which are not in conflict with any of the provisions of this decree.

3. Upon receipt of written request for such a license defendant United States Gypsum Company shall advise the applicant in writing of the royalty which it deems reasonable for the patent or patents to which the request pertains. If the parties are unable to agree upon a reasonable royalty within sixty (60) days from the date such request for a license was received by United States Gypsum Company, the applicant therefor shall within ten (10) days thereafter apply to this Court for a determination of a reasonable royalty or be deemed to have abandoned his said request for such license. The applicant shall promptly give written notice of the filing of such application to the United States Gypsum Company and to the Attorney General of the United States, who shall have the right to be heard thereon. The reasonable royalty rate or rates so determined by the court shall apply to such patent or patents in the license of the applicant from the date of his last written request for such license, and to such patent or patents in all other licenses then or thereafter issued under this decree from the date of such determination. Pending the completion of any such proceeding, applicant shall have the right to make, use and vend under the patent or patents to which his application pertains upon the terms and conditions as set forth in paragraph 4 of this Article, provided

he files his application for the determination of a reasonable royalty as aforesaid.

4. Where an application has been made to this Court for the determination of a reasonable royalty under paragraph 3 of this Article, the applicant or the United States Gypsum Company may apply to the court to fix an interim royalty rate pending final determination of what constitutes a reasonable royalty. If the court fixes such interim royalty rate, United States Gypsum Company shall then issue and the applicant shall accept an interim license agreement effective as of the date of the applicant's last written request for such license hereunder and in the form this day filed herein and approved by the court, providing for the periodic payment of royalties at such interim rate from the effective date of such interim license. If applicant fails to accept such interim license or fails to pay the interim royalty in accordance therewith, any such action or omission shall be grounds for the dismissal of the application for the determination of a reasonable royalty and the withdrawal or cancellation of the interim license. Where an interim license has been issued pursuant to this paragraph, reasonable royalty rates for any patent or patents as finally determined by the court shall apply to such patent or patents in the licenses of the applicant and all other applicants then before the court and shall be retroactive with respect to each such applicant to the date of his said written request for such license.

Article VII.

Nothing contained in this decree shall be deemed to have any effect upon the operations or activities of said defendants which are authorized or permitted by the Act of Congress of April 10, 1918, commonly called the Webb-Pomerene Act, or the Act of Congress of August 17, 1937,

commonly called the Miller-Tydings Act, or by any present or future act of Congress or amendment thereto; provided, however, nothing contained in this Article shall in any manner affect the provisions of Article VI of this decree.

ARTICLE VIII.

For the purpose of securing compliance with this decree, and for no other purpose, duly authorized representatives of the Department of Justice, upon written request of the Attorney General or any Assistant Attorney General, and on reasonable notice in writing addressed to any defendant company at its principal office, shall be permitted, subject to any legally recognized privilege: (a) access during the office hours of said defendant to all books, ledgers, accounts, correspondence, memoranda, and other records and documents in its possession or under its control relating to any of the matters contained in this judgment; (b) subject to the reasonable convenience of said defendant and without restraint or interference from it, to interview officers or employees of said defendant regarding any of the matters contained in this judgment; provided, however, that either said defendant or any such officer or employee may have counsel present at any such interview. No information obtained by the means permitted in this Article shall be divulged by any representative of the Department of Justice to any person other than a duly authorized representative of the Department of Justice, except in the course of legal proceedings in which the United States of America is a party, for the purpose of securing compliance with this decree or as otherwise required by law.

ARTICLE IX.

Judgment is entered against the defendant companies for 50% of the costs of $2,824.00 to be taxed in this proceeding, and the costs so to be taxed are hereby prorated against the several defendant companies as follows:

United States Gypsum Company	$776.60
National Gypsum Company	324.76
Certain-teed Products Corporation	155.32
The Celotex Corporation	42.36
Ebsary Gypsum Company, Inc.	42.36
Newark Plaster Company	56.48
Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company	14.12

ARTICLE X.

Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith.

Let the decree be entered.

HAROLD M. STEPHENS,
FINIS J. GARRETT,
JOSEPH R. JACKSON.

May 15, 1951.

(Interim license form not reproduced.)

MAJORITY OPINION.

Filed Jul. 6, 1954, Harry M. Hull, Clerk

IN THE UNITED STATES DISTRICT COURT
For the District of Columbia.

United States of America, *Plaintiff*,
vs.
United States Gypsum Company, et al., *Defendants*.
No. 8017 Civil

PETITIONS OF THE UNITED STATES, NATIONAL GYPSUM CO., CERTAIN-TEED PRODUCTS CORPORATION, EBSARY GYPSUM CO., INC., AND NEWARK PLASTER CO. FOR ORDERS, MODIFICATIONS OR DIRECTIONS FOR THE ENFORCEMENT, CONSTRUCTION OR CARRYING OUT OF THE FINAL DECREE OF MAY 15, 1951.

Counsel who argued orally, who appeared at the hearing or who were on the briefs for the various parties are as follows:

For Petitioner, The United States of America: Mr. Edward Knuff (Special Assistant to the Attorney-General) argued orally; Mr. Vincent A. Gorman and Mr. Lawrence Gochberg (trial attorneys for the United States) appeared; Mr. Stanley N. Barnes (Assistant Attorney-General), Mr. Charles H. Weston and Mr. Edward Knuff (Special Assistants to the Attorney-General), Mr. William D. Kilgore

and Mr. Vincent A. Gorman (trial attorneys for the United States) were on the briefs.

For Petitioner, National Gypsum Co.: Mr. Samuel I. Rosenman argued orally; Mr. Seymour Krieger, Mr. Elmer E. Finck, and Mr. Seymour D. Lewis appeared; Mr. Samuel I. Rosenman, Mr. Elmer E. Finck, Mr. Seymour D. Lewis, Mr. Stanley M. Silverberg, Mr. Howard Weinstein, and Mr. Seymour Krieger were on the briefs, as also were Finck & Huber and Rosenman, Goldmark, Colin & Kaye, of Counsel.

For Petitioner, Certain-Teed Products Corporation: Mr. Norman A. Miller argued orally; Mr. Herbert W. Hirsh, Mr. C. Roger Nelson, Mr. Henry Clausen and Mr. Franklin M. Schultz appeared; Mr. Herbert W. Hirsh, Mr. Norman A. Miller and Clausen, Hirsh & Miller were on the briefs, as were Garson Purcell and Purcell & Nelson, of Counsel.

For Petitioner, Newark Plaster Company: Mr. Benjamin P. DeWitt argued orally; joint briefs were filed for Newark Plaster Company and for Ebsary Gypsum Company, Inc. upon which were DeWitt, Pepper & Howell (attorneys for Newark) and Joseph S. Rippey (attorney for Ebsary), as also were Benjamin P. DeWitt, Sidney Pepper and Joseph S. Rippey, of Counsel.

For petitioner, Ebsary Gypsum Company, Inc.: Mr. Joseph S. Rippey argued orally.

For Respondent, United States Gypsum Company: Mr. Cranston Spray and Mr. Bruce Bromley argued orally; Mr. Robert C. Keck, Mr. Hugh Lynch, Jr. and Mr. John E. MacLeish appeared; Mr. Bruce Bromley, Mr. Cranston Spray, Mr. Robert C. Keck and Mr. Hugh Lynch, Jr. were on the briefs, as also were Cravath, Swaine & Moore and MacLeish, Spray, Price & Underwood, of Counsel.

Mr. Albert E. Hallett appeared for The Celotex Corporation.

Before the HONORABLE KIMBROUGH STONE, United States Circuit Judge and the HONORABLE EUGENE WORLEY and the HONORABLE WILLIAM P. COLE, JR., Judges of the United States Court of Customs and Patent Appeals, sitting as District Judges.

STONE, *Circuit Judge:* The United States brought an Anti-Trust action (Civil No. 8017) against United States Gypsum Company, et al., which were engaged in the mining of gypsum rocks and in the manufacture and sale of gypsum products. The complaint charged that a controlling unlawful combination was effectuated by means of substantially uniform patent license agreements between USG and the other manufacturing defendants as licensees. At the close of evidence for the United States, the statutory Court of three Judges sustained a motion to dismiss the complaint under Rule 41(b) of the Federal Rules of Civil Procedure upon the ground that on the facts and the law the Government had shown no right to relief (*U. S.* v. *U. S. Gypsum Co., et al.,* 67 F. Supp. 397).

The Government appealed and the Supreme Court reversed and remanded "for further proceedings in conformity with his opinion." (333 U. S. 364, 402). This decision was on March 8, 1948 with rehearing denied on April 5, 1948 (333 U. S. 869).

After remand, the Government moved for a summary judgment, which was entered on November 7, 1949 (one Judge dissenting). As of that date, this Court entered a decree intended to cover the matters involved. Both sides appealed. The Government contended that the de-

cree was not adequate to cure the ill effects of the illegal conduct of the defendants. The defendants contended that the summary judgment had denied their right to present direct evidence which would have established the lawfulness of their activities.

May 29, 1950, the Supreme Court dismissed the appeal of the defendants (339 U. S. 959) in a memorandum (339 U. S. 960) wherein it affirmed Article III of the November 7, 1949, decree and stating:

> "* * * Article III of the decree of the District Court of November 7, 1949, reading as follows: 'The defendant companies have acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board and have monopolized trade and commerce in the gypsum board industry in violation of sections 1 and 2 of the Sherman Antitrust Act,' is affirmed. The corporate defendants and Samuel M. Gloyd, doing business as Texas Cement Plaster Company, are enjoined, pending further order of this Court, from (1) enforcing in any manner whatsoever the provisions of their current license agreements fixing, maintaining, or stabilizing prices of gypsum board or the terms and conditions of sale thereof, and (2) from entering into or performing any agreement or understanding in restraint of trade and commerce in gypsum board among the several states in the eastern territory of the United States by license agreements to fix, maintain or stabilize prices of gypsum board or by license or other concerted action arranging the terms and conditions of sale thereof."

On November 27, 1950, the Supreme Court decided (340 U. S. 76) that the decree of November 7, 1949 was inadequate. The Court pointed out wherein it found such inadequacies and closed its opinion as follows:

"With these general suggestions, the details and form

> of the injunction can be more satisfactorily determined by the District Court. Its procedure for the settlement of a decree is more flexible than ours."

On the same day, the Supreme Court extended its injunction order of May 29, 1950 (339 U. S. 960) to be "continued in effect until the entry of a final decree in the District Court."[1]

On May 15, 1951, this Court modified its earlier decree in accordance with this opinion of the Supreme Court. There was no appeal therefrom. This is the present Final Decree.

In January, February or March, 1953, USG filed separate similar actions against four of the other corporate defendants in the Anti-Trust action. These suits were: against the National Gypsum Company, in the Northern District of Iowa; against Certain-Teed Products Corporation, in the same District; against Newark Plaster Company, in the District of New Jersey; and against the Ebsary Gypsum Company, in the Southern District of New York. Each of these suits was based on alternative claims for royalties or for the reasonable value of the use of certain of its patents or for damages because of infringement. The time period covered by each of these four suits was, roughly, from the first opinion by the Supreme Court (March 8, 1948), to the date of the Final Decree (May 15, 1951), and, as to Newark and Ebsary, up to the filing of the complaint against each of them.

The Petitioner in each of the four suits here has filed, in the Anti-Trust case, its separate petition to enjoin the USG suit against it and for associated relief. Very broadly stated, these petitions are based on claimed protection of the Final Decree in the Anti-Trust case, on

1. This extension order appears in the mandate issued to this Court on the remand from the opinion in 340 U. S.

misuse of patents, and on prevention of a multiplicity of actions. Stay orders have been entered in the two Iowa District cases to await action here. Also, the United States has filed a petition to enjoin USG from asserting any claim or suit "in whole or in part on any of the license agreements adjudged illegal, null and void by the final decree of this Court entered on May 15, 1951, or on any provision thereof." As to any claims based on such license agreements, the United States alleges that such "are barred by, and constitute an attempt to defeat, said decree." As to any "alternative claims" set forth in such four suits, the United States "takes no position" as to whether or not they are barred by the Final Decree.

Both by briefs and oral arguments, the issues have been excellently presented by very able counsel for all of the parties.

A plan as a guide to our sequence in considering the issues before us is under four general headings as follows:

I—Jurisdiction
II—Scope of Article IV of the Decree
III—Modification of the Decree
IV—Misuse and Purge

This opinion will follow that arrangement.

I—JURISDICTION.

Jurisdiction of a Court to act upon matters presented to it is purely a matter of power to act. Having such power, whether a Court should exercise it may or may not become a matter of discretion depending upon whether, under all the circumstances of the situation before the Court, the Court has a duty or has a choice.

Petitioners claim jurisdiction here on four grounds: (a) to compel obedience to the Decree, (b) to implement

the Decree in order to effectuate its "basic" purposes, (c) to exercise a "paramount" jurisdiction under express reservations in Article X thereof, and (d), under broad powers of a court of equity, as the most appropriate forum to prevent possible misconstruction of the Decree, in a multiplicity of actions, by Courts unfamiliar with this Anti-Trust case litigation.

Besides countering each of these grounds, USG contends (a) that only the Government (being the sole original complainant) can move to construe or enforce the Decree, and (b) that the Government can participate in the four suits as a permitted intervener or as an *amicus curii.*

Such being the contentions as to this issue, it seems logical to consider first the contentions of USG. The main reliance of USG is *Buckeye Coal and Railway Co.* v. *Hocking Valley Co.*, 269 U. S. 42. Petitioners distinguish this case on the grounds that the Buckeye was not a party to that Anti-Trust suit (while Petitioners are defendants in such action here); and that Article X of this decree expressly reserves jurisdiction to enable "any of the parties to this decree * * * to apply to this Court, at any time for such orders" etc. They cite *Missouri-Kansas Pipe Line Co,* v. *U. S.*, 312 U. S. 502; *Local Loan Co.* v. *Hunt*, 292 U. S. 234 and *Terminal Railroad Ass'n* v. *U. S.*, 266 U. S. 17 to support their contention that parties to an anti-trust case may act to protect their interest based on the Anti-Trust Decree.

Speaking generally and without regard to any special considerations applicable to anti-trust suits, it is correct to say that a court of equity has power to enforce its decrees and that such power includes implementation of the basic purposes thereof in so far as such appears from the language or from the clear intendment thereof. These rules apply to civil anti-trust suits brought by the Government with the important qualification or limitation as to

the parties who may take advantage of them. This difference arises from the purposes of such suits. The purposes of such an action are to destroy an economic situation which is resulting from a conspiracy or monopoly in restraint of interstate commerce to the harm of the public.

To represent and protect this public interest is made the duty of the Attorney-General (15 U. S. C. A. § 4 and related sections of the Act).[2] USG relies upon the *Buckeye Coal & Railway Co. et al.* v. *Hocking Valley Railway Company et al.*, 269 U. S. 42, which dismissed certain petitions in intervention seeking relief in an anti-trust suit brought by the Government and in which a decree for dissolution had been entered some seven years before the intervening petitions were filed, as establishing the doctrine that only the Attorney-General can seek to enforce, construe or modify a decree requiring dissolution under the Act. There are expressions in the *Buckeye* case which tend to support such a view.[3] However, this statement is immediately followed by another which clearly implies that the situation might have been different had interveners been parties to the Anti-Trust suit.[4]

Parties to an original anti-trust suit have a status therein which often does not apply to outsiders. This arises

2. This duty is different and broader than the right given individuals to recover separate damages under 15 U. S. C. A. § 15. Compare *United States* v. *The Borden Company et al.*, 348 U. S. ...., May 17, 1954.

3. At page 49 of that opinion the Court stated:
"* * * The United States, which must alone speak for the public interest, does not appear with them (the interveners) on this appeal. They have therefore no *locus standi*. *United States* v. *Northern Securities Co.*, 128 Fed. 868" (should be 808).

4. At page 49 appears:
"underneath all these reasons for dismissing the appeal, is the fundamental objection that these coal companies presented no case upon their petition justifying their intervention. They were not parties to the original suit."

from the practical effects of the decree upon the legal rights of the parties. Such a decree is based upon a determination that the Act has been violated by an existing economic situation. Necessarily, the relief is such alteration of that situation as will do away with all unlawful features and potentialities. Unavoidably, such legal surgical operations involve and change the inter-relationship of the defendants, whose only reason for being made parties defendant was that they participated in the violation of the Act. Such decrees are intensely practical. Often, in this readjusting process, a decree provides not only for duties but also for rights *inter se* the parties. Where such rights are given, they carry to the recipient party the right to urge compliance, within the limits of the decree.

This is the rule applied in *Terminal Railroad Association of St. Louis et al.* v. *United States et al.*, 266 U. S. 17. This was an action for contempt instituted by the "west side lines" against the "east side lines" based upon the contention that the latter had violated an anti-trust case decree to the damage of rights alleged accorded the "west side lines" under that decree. In that opinion (p. 27) the Court stated:

> "In these proceedings, the United States did not join in the complaint or participate in the hearing in the District Court, but has since appeared and is aligned with the appellees. The proceedings were instituted by the west side lines, not to vindicate the authority of the court, but to enforce rights claimed by them under the original decree. The controversy is between them and the east side lines as to whether the former or the latter shall bear transfer charges on west bound through freight."

Also, the Court (p. 29) stated:

> "* * * The question whether the east side lines are bound to pay transfer charges on west bound through freight depends upon the proper construction and application of the original decree."

There is another case which is important. In an anti-trust suit by the *United States* v. *Columbia Gas and Electric Co. et al.*, a consent decree was entered. The closing paragraph of the decree provided that Panhandle Eastern Pipe Line Co. (not a party in the action) "upon proper application, may become a party hereto for the limited purpose of enforcing the rights conferred by Section IV hereof." Thereafter, Panhandle sought to do this by applying for leave to intervene, which was denied by the District Court. The appeal of Panhandle is *Missouri-Kansas Pipe Line Co.* v. *United States et al.*, 312 U. S. 503.

In discussing the case, the Supreme Court stated (p. 504) that the "issues here revolve around the scope of those provisions of the decree." Among the arguments pressed was a challenge to the jurisdiction over the appeal or, "in the alternative, insisting on the propriety of the action of the district court" (p. 505). It was argued that "the Attorney-General is the guardian of the public interest in enforcing the anti-trust laws * * * (and that) injection of new issues ought not to be allowed to delay disposition of the main litigation * * *" (p. 505). The Court stated (p. 506):

> "All of these arguments misconceive the basis of the right now asserted. Its foundation is the consent decree. We are not here dealing with a conventional form of intervention, whereby an appeal is made to the court's good sense to allow persons having a common interest with the formal parties to enforce the common interest with their individual emphasis. Plainly enough, the circumstances under which interested outsiders should be allowed to become participants in a litigation is, barring very special circumstances, a matter for the *nisi prius* court. But where the enforcement of a public law also demands distinct safeguarding of private interests by giving them a formal status in the decree, the power to enforce rights thus sanctioned is not left to the public authorities

nor put in the keeping of the district court's discretion.

"That is the present case. Panhandle's right to economic independence was at the heart of the controversy. An important aspect of that independence was the extension of its operations to permit sales in Detroit. The assurance of this extension was deemed so vital that it was safeguarded by explicit provisions in the decree."

Further, the Court stated (p. 508):

"We are not concerned with the substantiality of this claim. The sole question before us is whether there was standing to make the claim before the district court. We hold there was such standing. To enforce the rights conferred by Section IV was the purpose of the motion." "Nor can the enforcement of this protection be deemed remotely in conflict with the public duties of the Attorney-General, nor to bring in digressive issues, nor to impeach the existing decree. It is a vindication of the decree."

In the concluding paragraph, the Court states (p. 509):

"In a memorandum filed by the Attorney General we are advised that on January 18, 1941, the district court filed an opinion approving the plan for modifying the original decree subject to some suggestions by the Government. This, we are told 'is believed to satisfy the public interest,' and so the Government desires to sustain the action of the court below without further litigation. We recognize the duty of expeditious enforcement of the antitrust laws. But expedition cannot be had at the sacrifice of rights which the original decree itself established. We assume that the district court will adjust the right which belongs to Panhandle with full regard to that public interest which underlay the original suit."

We think that these three cases announce the following rules of law applicable to the situation here: the Attorney-General is the representative of the "public interest" in

anti-trust cases brought by the Government; but that where a dissolution decree by specific statement or by fair implication therein accords rights to parties thereto, they have a standing, in the main suit, to enforce such rights in a manner consonant with the underlying purposes of the decree.[5]

In this Final Decree, there was (Article X) an expressly reserved jurisdiction "for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith.

Such reservation is sufficient to sustain jurisdiction.

For the reasons that the Petitioners here are parties to the original Anti-Trust suit presenting claims to rights under the Final Decree; and that Article X of that Decree expressly reserves jurisdiction, we hold that jurisdiction to entertain these petitions exists. In so holding, we apply the language in the *Missouri-Kansas Pipe Line Co.* case, *supra* at p. 508 that "We are not concerned with the substantiality of this claim. The sole question before us is whether there was standing to make the claim before the district court. We hold there was such standing." Such "substantiality" depends upon what we will call "The

5. We have confined our discussion to parties to the original Anti-Trust suits. However, there are other cases where persons not parties but directly affected by the decree in such cases have been allowed, in connection with such suits, to intervene or to defend to test their rights. Examples are *Hughes* v. *United States*, 342 U. S. 353; *United States* v. *Paramount Pictures et al.*, 334 U. S. 131, 176-178; *United States* v. *Swift & Co. et al.*, 286 U. S. 106; *United States* v. *California Cooperative Canneries*, 279 U. S. 553; *Continental Ins. Co. et al.* v. *United States et al.*, 259 U. S. 156.

Merits" of these controversies—to be considered later in this opinion.

Next, passing to the four grounds alleged by Petitioners to sustain jurisdiction—all of which are challenged by USG.

The inherent power of a court of equity to compel obedience to its decrees is conceded by USG. It contends that its suits do not violate the Decree, hence this doctrine is inapplicable here. Where it is seriously contended, as here, that these suits do violate the Decree, obviously, this Court has power—jurisdiction—to determine whether such violation exists; and, if it does exist, how it may be cured.

As to the existence of power—jurisdiction—we think it is not controlling that Petitioners might urge the Decree as a defense in the USG suits. That question is not one of the existence of jurisdiction in this Court but rather one of whether this Court, in its discretion, should exercise such jurisdiction instead of leaving such issues to be determined in the USG suits.

As to the ground for jurisdiction based upon "implementation" of the Decree to effectuate its basic purposes, we think the reasoning in *Local Loan* case (*supra*) at p. 239 is merely one of the methods of seeking relief in the original action. There it was by an ancillary bill and here by petitions. Here, as there, the jurisdiction "to secure or preserve the fruits and advantages of a judgment or decree rendered therein" is a basis urged here for our jurisdiction. Here, Petitioners urge that Article IV of the Decree established a "status" which is endangered by the USG suits. We think this issue is within the jurisdiction of this Court. As to the nature and limits of implementation, see *Hughes* v. *U. S.*, 342 U. S. 353, 356-357.

As to modification of the Decree as a Jurisdictional matter, Article X expressly reserves that power. Whether or

to what extent the Decree should be modified are matters within the proper exercise of that power. If this power should be exercised, we think we have power (as admonished by the Supreme Court in this case, 340 U. S. at pp. 88-89) to make any modifications which will, "so far as practicable, cure the ill effects of the illegal conduct, * * *." At the same time, we cannot enlarge the Decree beyond the limits necessary to perfect its effectuation. (*U. S.* v. *Swift & Co.*, 286 U. S. 106, 114.) Also, *U. S.* v. *International Harvester Co.*, 274 U. S. 693, 702, where the Court stated that a supplemental complaint by the Government to broaden the original decree must be denied because "This is entirely inconsistent with *the purpose of the consent decree,* both as appears from its terms and as it was apparently construed by the District Court itself" (italics added). Also, see *Hughes* v. *U. S.*, 342 U. S. 353, 356-357.

As to jurisdiction based on possible misconstruction of the Decree in a multiplicity of Courts. It seems to us that this ground is really that of a multiplicity of actions. The matter of possible misconstruction of the Decree is rather a *reason* for taking jurisdiction where there is a claimed multiplicity of actions each involving the meaning and application of the Decree. We think there is a proper and clear multiplicity of actions, to wit, the four present suits by USG and the claims against Celotex and Kaiser. Multiplicity of actions prevention is a long established basis of equity jurisdiction. We think such jurisdiction is present here. Our conception of this character of jurisdiction is that its exercise is discretionary instead of compulsory. The extent of such exercise should depend upon our solution of the issues herein as to the merits.

In this part of our opinion we are not determining anything as to the merits but only broadly that Petitioners have the right to proceed.

Our next task is to determine the merits of the several issues which Petitioners claim entitle them to relief. In doing this, we do not leave behind us all questions of jurisdiction. The broad issues are: (a) the Scope of Article IV of the Decree, (b) the Modification of the Decree, and (c) Misuse of Patents, with the related matter of Purge. As to each of these issues there enters a matter of jurisdiction—not as to *general* jurisdiction to entertain Petitioners' actions here but as to the legal limits within which we may act in considering and determining the particular issue. An illustration of this kind of jurisdiction is the general doctrine that a decree cannot be enlarged beyond the effectuation of the purposes thereof.

II—SCOPE OF ARTICLE IV.

Petitioners contend: (1) that Article IV of the Decree "in terms and by fair intendment" bars these suits by USG; (2) that, even if Article IV "in its present form" is not a bar, yet it should be so *implemented* as "necessary to achieve the basic purpose" of the Decree; and (3) that if such remedy is deemed not within the Decree, "as it presently stands," the Decree should be so modified, because the need for such relief has only recently become necessary in order to achieve its basic purpose. The last of these three contentions will be hereinafter treated under the next heading of this opinion—that of "III—Modification."

The scope of Article IV should be determined in the light of the issues in the Anti-Trust case, of the entire Final Decree, of the proceedings in this Court in connection with the two decrees (November 7, 1949 and May 15, 1951), and the here pertinent statements in the opinions of the Supreme Court in this litigation. To discuss each of these matters adequately is an unnecessarily large undertaking

for the purposes of this opinion. We shall attempt only a sufficient outline of the essential highpoints.

The Issues. The Anti-Trust suit was to enjoin violations of Sections 1, 2 and 3 of the Act. These violations were charged as being carried out by means of patent license agreements granted by USG to the other defendants (manufacturers of gypsum board). The opinion of Chief Judge Stephens very finely and completely narrates the facts and issues on the trial which resulted in the first appeal (333 U. S. 364). We refer to his opinion (*United States* v. *United States Gypsum Co.*, 67 F. Supp. 397) for a more detailed statement of the issues.

The Final Decree. The pattern of the Final Decree of ten Articles is as follows. Article I is the jurisdictional declaration; Article II is the definition of terms used in the Decree, these include "Patents"[6] and "Patent Licenses";[7] Article III declares the defendants have acted in concert to violate Sections 1 and 2 of the Act; Article IV is that "Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void"; Article V contains the injunction provisions;[8] Article VI covers non-

6. "Patents" is defined as including all patents and applications therefor (covering gypsum board, its processes and methods of manufacture or use thereof) issued to, applied for or acquired "within a period of five (5) years from the date of this decree", as well as patents issued upon any of said applications, continuations, etc. of any such patents or applications.

7. "Patent Licenses" mean the patent license agreements in effect between USG and each of the other defendants "at the time the complaint herein was filed and described in said complaint as follows: (here follows listing of eighteen such agreements) and any supplement or amendment" thereto.

8. These provisions are "from entering into or performing any agreement or understanding among the defendant companies or other manufacturers of gypsum products to fix, maintain or stabilize, by patent license agreements or other acts or course of action, the prices, or the terms or conditions of sale, of gypsum

discriminatory compulsory license agreements from USG to applicants therefor, subject to approval of the District Court; Articles VII and IX are not material to us here; Article VIII provides for supervision by the Department of Justice to secure compliance with the Decree; Article X is the reservation of jurisdiction for the purposes of construction of, carrying out of, or enforcement of the Decree.

A condensation of the method or plan of the Decree to remedy the unlawful situation may be stated as follows: by annulling the existing named license agreements; by injunction against acts which would tend to defeat the Decree; by use of new compulsory court supervised license agreements; by Department of Justice supervisory inspections; and by retention of broad jurisdiction to protect and effectuate the purposes of the Decree.

Proceedings in this Court. After rehearing was denied (April 5, 1948, 333 U. S. 869), this Court held a conference of counsel which resulted ultimately in a motion by the Government for summary judgment, it being claimed that there was no genuine fact issue remaining to be determined. Defendants filed offer of proof as to fact matters they deemed yet in issue. These two occurrences were in June 1948. Beginning in June 1948 and extending to June 14,

---

products sold or offered for sale to other persons, in or affecting interstate commerce; and from engaging in, pursuant to such an agreement or understanding, any of the following acts or practices:

"(1) agreeing upon any basis for the selection or classification of purchasers of gypsum products;

"(2) refraining from selling gypsum products to any purchaser or any class of purchasers;

"(3) agreeing upon any plan of selling or quoting gypsum products at prices calculated or determined pursuant to a delivered price plan which results in identical prices or price quotations at given points of sales or quotations by defendants using such plan;

"(4) policing, investigation, checking or inquiring into the prices, quantities terms or conditions of any offer to sell or sale of gypsum products."

1949, numerous briefs and memoranda were filed by the various parties in connection with the motion for summary judgment, the offer of proofs, suggested findings of fact, and form and contents of decree to be entered. June 14, 1949 this Court held an extended hearing upon all of these matters. At the hearing, a majority of this Court made clear their intention to sustain the motion for summary judgment; and counsel for all parties were given time to file suggestions and memoranda as to form of decree and other pertinent matters. Such suggestions and memoranda were filed up to August 12, 1949. Without further hearing, this Court entered its decree of November 7, 1949. It is this decree from which the Government and the defendants appealed (Defendants' appeal 339 U. S. 959 and 960, Government appeal 340 U. S. 76).

We have gone through the transcript of the hearings in this Court (June 14, 1949), the written or printed suggestions and memoranda of the parties filed before, in connection with and after that hearing. Much of these matters and the hearing had to do (*inter alia*) with the various suggestions as to the form of decree to be entered, including the scope and purposes of what later became, in substance, Articles III, IV and VI of that decree. Practically all of the matters were concerned with prevention of violation in the future, that is, after the effective date of the decree to be entered. However, USG was much concerned with avoiding any provision in the decree declaring the licenses illegal, null and void in their entirety. It was in this connection that it voiced its apprehensions as to the period involved here. Since our concern here is with what took place after the first opinion of the Supreme Court and before entry of the Final Decree (May 15, 1951), our search was primarily aimed at anything in this presentation in connection with the November 7, 1949 decree which might throw particular light upon the period of our con-

cern. Some little discussion occurred, at the hearing, over the terms and conditions of compulsory licenses.

At this point, it is convenient for us to narrow our consideration of the causes of action alleged in the petitions filed by USG in the various other District Courts. These petitions contain five Counts each in the actions against National and against Certain-Teed, and six Counts in those against Ebsary and Newark.[9] The first two Counts of all four petitions are directly based on the license agreements set forth in Article II of the decree of November 7, 1949. Article IV of that decree nullified completely the license agreements listed in Article II. This nullification did not create a status. It simply declared a status which had existed since the granting of the license patents. This Article was made effective *pendente lite* by the Supreme Court in connection with disposition of the appeal of the defendants in the Anti-Trust case (May 29, 1950, 339 U. S. 960) by enjoining any continued performance thereunder. Article IV passed into the Final Decree unchanged. The effect of Article IV was to nullify completely these license agreements. In this situation, we determine that these two Counts in all of these suits should be enjoined from further prosecution because they clearly violate the express provisions of Article IV. We are not impressed by the contention of USG that these two Counts are necessary or useful to meet possible factual situations which might arise in the trials of these suits. Those Counts state definitely grounds for claimed relief and must be so regarded. This determination allows us hereinafter to limit and concentrate attention upon the other Counts of each petition.

We turn now to matters in connection with the formation

9. In the suit against Ebsary and in that against Newark the additional Count (Count 6) is for alleged infringement of a patent not covered in any of the license agreements listed in Article II of the Decree. We will later herein determine as to these Counts 6.

of the 1949 decree which throw light upon the period now involved. In this connection it should be in mind that the four Petitioners here had ceased paying royalties (under the license agreements) shortly after the first opinion of the Supreme Court (333 U. S. 364, March 8, 1948).

During the discussion at the hearing on June 14, 1949, Mr. Miller, counsel for Certain-Teed stated:

> "* * * Mr. Dallstream, who will follow me, will present to Your Honors the exact changes we desire to make in both decrees (presented by the Government and by USG) which would give us the decree we would be satisfied with and which we hope that Your Honors will adopt."

Thereafter, Mr. Dallstream stated:

> "At IV, which United States Gypsum has left out altogether, and has gone back over to page 7 and shown it lined up with VII of the Government, we would like to suggest that in lieu of either, the Article VII of the Government and Article IV of U. S. Gypsum, that a new Article IV reading in exactly the language of the *Masonite* case be entered, which would read as follows:
>
> > " 'That each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and is illegal, null, and void.'
>
> "Chief Judge Stephens: You suggest that in place of Article VII of the Government?
>
> "Mr. Dallstream: Of the Government and Article IV of United States Gypsum.
>
> "Chief Judge Stephens: Yes.
>
> "Mr. Dallstream: I agree with Mr. Finck that we cannot dodge the fact that whatever interpretation should be put on the Supreme Court's decision, the majority of this court have decided that the mere plurality of licenses, accompanied by the other features that existed in this case, made those agreements illegal and that, being illegal, they are unenforceable and are null and void.

"Now, we are faced with the dilemma: What are we going to do about it: We have got to have some new ones if we are going to be fair to the industry, to these licensees, the public, and to all concerned; and so, some provision must be made, and we think V and VI take care of that, and if we declare them null and void for these reasons, which have been recited in the previous paragraph of this decree, that we have taken care of the situation.

"In order that United States Gypsum will have no misunderstanding of my position, I want them to know that my suggestion is in no sense based on any hope or desire on my part to get out of any license fees during any interim period, and if we can agree upon an appropriate license agreement, as far as my client is concerned, we are willing to let the royalty rate, whatever it is, agreed upon apply back to the time when we ceased paying royalties. I just want to make it clear to all that we are not attempting by this declaration of illegality of them to find some way of avoiding the license fees which during this none of us have paid." (Transcript, pp. 8220-8221.)

In a Reply Memorandum filed by USG (July 23, 1949), are the following statements:

"The defendant licensees can have no purpose in making the suggestion that each patent license be adjudged illegal except to obtain some advantage with respect to the use of the patents. They apparently believe it will relieve them from accounting for anything done either before or after the Supreme Court's decision." (p. 6.)

"They have no right of any kind to Gypsum's patents in the future any more than if their licenses had expired without this litigation. With the cancellation of their present licenses they should only be placed in *statu quo* to the extent that any licensee desires to continue the use of any of Gypsum's patents under which it is presently licensed." (P. 8.)

"In the first place, Newark seeks a provision that each of the license agreements be adjudged unlawful

> under the anti-trust laws and illegal, null and void, which not only goes beyond the scope of the determination by this court upon the motion for summary judgment but has for its purpose an attempt to be relieved from accounting, as stated before in this memorandum." (P. 9.)
>
> "National like Newark, is one of those companies which seeks to have the entire license contract declared illegal, apparently believing it will relieve them from accounting with respect to anything done before or after the decision of the Supreme Court." (P. 15.)

It is clear from the foregoing quotations that the situation as to our period was brought up at the hearing and in the USG Memorandum in connection with the discussion as to the scope and possible effect of what later became Article IV, which struck down the licenses *in toto*. USG thus expressed its apprehension that the licensees had in mind some purpose of avoiding an accounting for use of its patents during our period. In so far as Certain-Teed and Celotex were concerned, any ground for this apprehension was expressly disavowed by Mr. Dallstream. National, Newark and Ebsary made no mention of the matter. No party sought to have it, specifically and separately, included in the decree of November 7, 1949.

It is important to emphasize the matter, in connection with which, these apprehensions of USG were expressed. The main contention between USG (on one side) and the Government and the other defendants (on the other side) was whether the decree should be confined, as to declaration of illegality, to the price fixing provision in the license agreements. Strenuously, USG contended for such limitation. This appears not only in its arguments and briefs in connection with the June 14, 1949 hearing but in its original suggestions as to prospective Articles III, IV, V and VI. As a companion and resultant position, USG urged that, while the existing agreements should be *cancelled, as*

of the date of the decree, only the minimum price provision should be declared illegal. The result of and purpose of these contentions would be to leave the agreements valid—therefore enforceable—until entry of the decree, except for the minimum price provision. It was in this setting and in relation to these contentions, that USG expressed its apprehensions above set out. The contest was whether the agreements were illegal only as to minimum price provisions or *in toto.* The decree of November 7, 1949 declared the agreements "illegal, null and void" in entirety.

The same reasoning as to Article IV would apply to the Final Decree unless the situation is affected by the later Supreme Court decisions herein or by what occurred in this Court on the last remand (in connection with the entry of the Final Decree here). We have examined the meager original file (in the Clerk's Office) as to what took place in this Court after the remand on the 340 U. S. appeal. We find nothing except counter suggested forms of decree filed by the Government and by USG. Neither contains anything expressly bearing upon our problems relating to this period covered by these USG suits. Apparently, this Court took these submitted forms and shaped its Final Decree of May 15, 1951 in endeavoring to follow the directions of the Supreme Court as announced in 340 U. S. 76.

Supreme Court Opinions. Concisely summarized, the three opinions of the Supreme Court made the following determinations which need consideration in connection with the point II of this opinion. In 333 U. S. 364, the Court decided (1) that the defendants had "acted in concert"—conspired—to control prices and to monopolize the gypsum industry; (2) that the instrumentalities created and employed to effectuate these purposes were license agreements covering patents owned or controlled by USG;

and (3) that such agreements covered control (a) of prices of patented gypsum board (expanded in 340 U. S. 76 to cover gypsum products), (b) control or affection of prices of unpatented gypsum products, and (c) control over terms and conditions of sale and distribution thereof. In the course of this opinion, the Court announced that the motive—good faith in reliance on the belief that such agreements were lawful under *United States* v. *General Electric Co.*, 272 U. S. 476—did not bar such patent exploitation as here found. The case was remanded for further proceedings.

When this Court granted a summary judgment on this remand and entered its decree, both the Government and the defendants appealed. The Government objected to the decree as being too narrow. The defendants contended their proffer of proof revealed issues of fact which this Court should have determined instead of granting the summary judgment. The Supreme Court affirmed Article III of that decree to the effect that sections 1 and 2 of the Act had been violated; entered an injunction against "enforcing in any manner whatsoever" the license agreements (339 U. S. 960); and dismissed the appeal of the defendants (p. 959).

On the appeal by the Government, that Court altered and broadened some of the provisions of our decree and remanded the case "for further proceedings in conformity with this opinion" (340 U. S. 76, 95). In that opinion there was no direct reference to a situation such as is now presented to us arising from these USG suits; Article IV was not changed.

In that opinion the Court stated (pp. 88-90):

> "A trial court upon a finding of a conspiracy in restraint of trade and a monopoly has the duty to compel action by the conspirators that will, so far as practicable, cure the ill effects of the illegal conduct,

and assure the public freedom from its continuance. Such action is not limited to prohibition of the proven means by which the evil was accomplished, but may range broadly through practices connected with acts actually found to be illegal. Acts entirely proper when viewed alone may be prohibited. The conspirators should, so far as practicable, be denied future benefits from their forbidden conduct.

"The determination of the scope of the decree to accomplish its purpose is peculiarly the responsibility of the trial court. Its opportunity to know the record and to appraise the need for prohibitions or affirmative actions normally exceeds that of any reviewing court. This has been repeatedly recognized by us. Notwithstanding our adherence to trial court responsibility in the molding of a decree as the wisest practice and the most productive of good results, we have never treated that power as one of discretion, subject only to reversal for gross abuse. Rather we have felt an obligation to intervene in this most significant phase of the case when we concluded there were inappropriate provisions in the decree. In resolving doubts as to the desirability of including provisions designed to restore future freedom of trade, courts should give weight to the fact of conviction as well as the circumstances under which the illegal acts occur. Acts in disregard of law call for repression by sterner measures then where the steps could reasonably have been thought permissible. We turn then to the Government's proposals for modification of the decree on the assumption that only a violation through concerted industry license agreements has been proven, but recognizing, as is conceded by defendants, that relief, to be effective, must go beyond the narrow limits of the proven violation."

Evaluating all of the foregoing matters and those now before us, we have some doubt as to whether Article IV is firm ground and it seems wiser to resolve those doubts against the contention that this Article, by fair implication, covers our situation. We are less disturbed in so resolv-

ing this doubt by the consideration that we can reach the same ultimate result over ground that we deem firm.

Newark and Ebsary. In Footnote 9 hereinbefore, we have referred to an additional Count (VI) in the USG petitions against those companies. This seems an appropriate place to determine that matter and, also, of another feature in those two petitions. The first matter is whether the patent covered in those Counts is included in list of patents defined in Article II of the Decree. The second is whether those two companies are liable for infringement of that, as well as other patents set forth in Counts I to V inclusive.

As to the first of these two matters. Application for this patent was filed by Roos on August 15, 1929 and later assigned to USG, to which the patent was issued on June 16, 1936. This patent related to the use of dextrinized starch in gypsum board core composition and method of manufacturing same. USG contends that this patent was not included in any of the license agreements with either of these companies. This, the companies deny. This patent (No. 2,044,401) was obviously an improvement patent. As such, we think it was included as paragraph 18 of the licenses to each of these companies (See transcript in the Supreme Court, October Term, 1947, No. 13, pp. 4416 and 4488). Also, Article II of this Final Decree defines "Patents" as meaning "United States Letters Patent and applications (therefor) * * * relating to gypsum board, its processes, methods of manufacture or use, now (May 15, 1951, the date of the Decree) owned or controlled by" USG. Also, the broadening of Article II § 3 by the Supreme Court (340 U. S. at p. 90) seems directly to include "improvement" patent subject matter.

As to the second matter. Seasonably after entry of the Final Decree, National and Certain-Teed applied for and received licenses thereunder, Neward and Ebsary have

never applied therefor. In the USG petitions against Newark and against Ebsary, it seeks recovery (Counts I-II) for license royalties on patents covered by the old licenses—that recovery included only the period ending with the Final Decree. Each of the succeeding Counts sought recovery "to the date of filing this complaint."

We have already disposed of all recovery up to May 15, 1951 (the Final Decree). Our immediate concern is with the period between this entry of the Decree and the filing of these USG actions, early in 1953. Neither Newark nor Ebsary have filed answer in these USG suits. We were informed in this presentation, that such answers would include a denial of use of these patents during this later period. Such defenses would obviously pose the direct issue of infringement *vel non* since this Decree. We think trial of that issue before the New York and New Jersey District Courts should not be interfered with here. There is no room, in this situation, for application of the multiplicity of actions rule, since each of these two cases must depend, as to this issue, upon its own set of facts. Nor do such limited issues affect the Final Decree here in any respect.

III—MODIFICATION.

It seems to us that there is some inter-mixing of the positions (as argued by both sides) of the legal principles of "implementation" of what is claimed to be required by the Decree (as it presently is) with the right and duty as to modification of the present Decree. Although the same practical effect might result from either "implementation" or modification, yet the legal considerations which control and limit the use of each differ from those applicable to the other.

We think this divergence lies in the different purposes to be served based upon construction of different phases

of a decree. As to implementation, the search is for the specific provisions or for the revealed broad purposes and intendments of a decree. If such search clearly shows such provisions or such intendment, implementation may—possibly must—be employed. If such does not appear, then resort may be had to expressed or implied powers to modify. The bases and the limits of the power and as to the duty to modify (if power exists) depend upon some considerations which differ from those governing implementation. We think the difference between the two remedies is exampled in *Hughes* v. *U. S.*, 342 U. S. 353 at 356-8. The purpose and the permissible function of an order for modification of an anti-trust decree is to cover something within the broad purposes of the decree but which, for some proper reason, was not included in the existing decree. Almost always, such modifications are concerned with remedies. Usually they concern situations which were either overlooked at the time the decree was entered or which have arisen or developed after the decree.

Here, we have no doubt of our power to make any *proper* modifications. Such power being expressly reserved in Article X of the Decree, we do not have to rely on any general equitable doctrine concerning the powers of a court of equity to protect and enforce its decrees, although these reservations in Article X express the purposes of the general equity doctrine, namely, to construe, carry out and enforce the Decree.

However, any and all powers (expressed or implied) to modify an equity decree have other limits than "the length of the Chancellor's foot." In this respect, we face the two contentions of USG: (1) that the situation arising from the USG suits was a matter "not then (when the Decree was entered) before the (this) Court or intended to be decided by it" and, therefore not within the Final Decree; and (2) that, if it is within the power of this

Court to modify the Decree so as to enjoin its suits, "there is no sound, equitable reason why" it should be thus enlarged. These two USG contentions present the successive questions of power to modify and of discretion in the use of any existing power.

Generally speaking, there is no doubt that a court of equity has power to modify its decrees so as to make them fully effective. USG argues and cites cases dealing with the limitations on such courts in construing their decrees.[10] We may accept them as announcing the broad doctrine that a decree may not be enlarged, beyond its intended proper scope, by the medium of modification.

In examining this matter of power we must not lose sight of the character of a decree in an anti-trust case. While the general legal rules governing modification of decrees are not exempt from application in such cases, yet the character of such litigation permits—sometimes requires—a degree of elasticity. This feature comes into existence because of the situation that such a decree is designed vitally to change an unlawful, but existing, econo-

10. Such rules apply to modifications. USG presents them under the headings and citations following.

"(1) Injunctive provisions in a decree must be precise and specific," citing *Shine Chain Theatres* v. *United States*, 334 U. S. 110, 126; *Hartford-Empire Co.* v. *United States*, 323 U. S. 346, 410; *Swift & Co.* v. *United States*, 196 U. S. 375, 396, 401; Federal Rules of Civil Procedure, Rule 65(d).

"(2) A Decree is limited in its application to the issues actually presented and intended to be adjudicated at the time of entry," citing *Oklahoma* v. *Texas*, 272 U. S. 21, 43; *United Shoe Machinery Co.* v. *United States*, 258 U. S. 451, 460; *Vicksburg* v. *Henson*, 231 U. S. 259, 268-273.

"(3) Plain and unambiguous terms of a decree may not be extended or contracted by construction," citing *Hughes* v. *United States*, 342 U. S. 353, 357; *United States* v. *International Harvester Co.*, 274 U. S. 693, 702-3; *Terminal Railroad Ass'n. of St. Louis* v. *United States*, 266 U. S. 17, 27, 29; *Butler* v. *Denton*, 150 F. 2d 689; *Union Pacific R. Co.* v. *Mason City & Ft. Dodge R. Co.*, 165 F. 844, 852 (rev. on other grounds 222 U. S. 237); *St. L. K. C. & C. R. Co.* v. *Wabash R. Co.*, 152 F. 849, 852 (modified 217 U. S. 247).

mic arrangement into such rearrangement as will remove the unlawful features. In framing such a decree, the Court is always necessarily acting with the knowledge that the remedies it then deems sufficient may, from experience thereafter, prove to be incomplete or defective—either because of lack of foresight at the time the decree is formed or because of subsequent happenings or conditions. In short, such a decree can rarely *crystallize* the entire matter. There must be a measure of only *gelling* which is susceptible of modification. Such we think is the teaching of *Hughes* v. *United States*, 342 U. S. 353, 357 and of *United States* v. *Swift & Co. et al.*, 286 U. S. 106, 114, as well as other cases.

Therefore, the question here, as to power, is whether the modifications urged by Petitioners would be an improper enlargement or (as contended by Petitioners) are proper to accomplish the purposes of the Decree. The determinative test is whether or not such modification is reasonably necessary to effectuate the basic purposes of the Decree.

The situation here is that Article IV of this Final Decree did not expressly or impliedly cover the character of suits now brought by USG for infringement or for *indebitatus assumpsit* or for *quantum meruit*. It neither allowed nor forbade such. It simply made no reference to them at all. Some months after the Decree became final, these suits were begun and later brought to our attention for action.

We have, hereinbefore, determined that they involved violations of the Decree as to the first two Counts of each. We now hold that we have jurisdiction to consider whether the Decree should be modified to affect prosecution of the Counts for infringement, for *indebitatus assumpsit* and for *quantum meruit*.

We think these "basic purposes" are to be sought by consideration of the purposes of this Anti-Trust suit, of

the opinions of the Supreme Court, the proceedings in this Court as to formation of a decree on the two remands, and upon the terms of the Final Decree.[11]

This was an Anti-Trust action charging violations, by the defendants therein, of Sections 1, 2 and 3 of that Act. The Supreme Court, in its three opinions (333 U. S., 339 U. S., and 340 U. S.), determined violations of Sections 1 and 2 of the Act through conspiracy to restrain interstate commerce and to monopolize trade therein in the gypsum industry; that these results had been accomplished through concerted action under eighteen similar patent license agreements granted by USG to the other defendants; and that such license agreements were illegal, null and void. To cure this situation, that Court affirmed Article III of the November 7, 1949 decree of this Court and enjoined defendants, pending further order of the Court, "from (1) enforcing in any manner whatsoever the provisions of their current license agreements fixing, maintaining, or stabilizing prices of gypsum board or the terms and conditions of sale thereof, and (2) from entering into or performing any agreement or understanding in restraint of trade and commerce in gypsum board among the several states in the eastern territory of the United States by license agreements to fix, maintain, or stabilize prices of gypsum board or by license or other concerted action arranging the terms and conditions of sale thereof" (333 U. S. 960). On November 27, 1950, this injunction order was "continued in effect until the entry of a final decree in the District Court."[12]

---

11. Under the preceding point (II—Scope of Article IV) of this opinion, we have examined such features of these items applicable to that discussion. We will try to avoid repetition here except as clarity may require.

12. This extension order is contained in the original mandate of the Supreme Court to this Court on the remand under its opinion in 340 U. S.

In discussing the duty of the trial court in formulating its decree in an anti-trust case where conspiracy in restraint of trade and monoply have been determined, the Court (in 340 U. S. 76 at pp. 88-90) stated:

> "A trial court upon a finding of a conspiracy in restraint of trade and a monopoly has the duty to compel action by the conspirators that will, so far as practicable, cure the ill effects of the illegal conduct, and assure the public freedom from its continuance. Such action is not limited to prohibition of the proven means by which the evil was accomplished, but may range broadly through practices connected with acts actually found to be illegal. Acts entirely proper when viewed alone may be prohibited. The conspirators should, so far as practicable, be denied future benefits from their forbidden conduct.
>
> "* * * In resolving doubts as to the desirability of including provisions designed to restore future freedom of trade, courts should give weight to the fact of conviction as well as the circumstances under which the illegal acts occur. Acts in disregard of law call for repression by sterner measures than where the steps could reasonably have been thought permissible. We turn then to the Government's proposals for modification of the decree on the assumption that only a violation through concerted industry license agreements has been proven, but recognizing, as is conceded by defendants, that *relief, to be effective, must go beyond the narrow limits of the proven violation*" (italics added).

When the case came back here on this last remand, this Court directed (order of January 26, 1951) filing of suggestions, as to form of decree, by plaintiff (Government) and by the defendants.

The violations of the Act are declared in Article III, which is the heart of the Final Decree. The other Articles of the Decree concern the remedies and methods which the Supreme Court and this Court then thought

sufficient to cure the unlawful conspiracy and monopoly. Article X performed the function of expressly reserving jurisdiction to take further action if experience thereafter should make such necessary or advisable fully to effectuate these purposes of destroying the monopoly and the conspiracy and denying the fruits thereof.

The practical situation present in this matter of Modification consists mainly of the following:

(1) For some years extending into the trial of this Anti-Trust case, the gypsum industry had been effectively organized so that prices and methods of distribution were controlled through the medium of patent license agreements covering patents and applications therefor owned or controlled by USG. These agreements were between USG and each of the various other defendants. The agreements included both process and machinery covered by the patents.

(2) On the first trial on the merits, June 15, 1946 (67 F. Supp. 397), this Court determined that, under its construction of *United States* v. *General Electric Co.* (272 U. S. 476), the separate license agreements were legal (pp. 421-441); and that these agreements were made *bona fides* with no ulterior purpose to violate the Act (pp. 458-484).

(3) On appeal (333 U. S. 364), the Supreme Court reversed and remanded (March 8, 1948) deciding that the industry-wide license agreements, entered with mutual knowledge of the licensor and of all of the different licensees, under which prices and distribution methods would be controlled, established an unlawful conspiracy and monopoly; and that "• • • regardless of motive, the Sherman Act barred patent exploitation of the kind that was here attempted" (p. 393).

(4) The Supreme Court asserted "Of course, this appeal must be considered on a record that assumes the va-

lidity of all the patents involved" (333 U. S. at 388). No change was made in that "record" in any subsequent proceedings in this Court.

(5) Almost immediately following this opinion of the Supreme Court, each of these four defendants stopped paying accrued or future royalties or paying otherwise for use of the patents covered by the license agreements. No payments of any kind were made until new compulsory licenses were granted, under the Final Decree, to National and Certain-Teed-Ebsary and Newark did not take out new licenses.

(6) The manufacturing plants of the licensees had been and were organized for use of these patent-covered methods.

(7) In the proceedings in this Court in regard to the formation of the November 7, 1949 decree, issues were presented as to whether the then license agreements should be nullified entirely or in a limited or qualified degree. It was in this connection, that USG argued for a limited or qualified prohibition; and made known its apprehension that an entire nullification might affect its expectation of receiving compensation for the use of its patents by the licensees during our period. This Court framed Article IV nullifying the license agreements entirely, as being illegal.

(8) On the defendants' appeal from that decree, the Supreme Court affirmed Article III and entered its injunction order (339 U. S. 960). In this injunction the Court expressly forbade defendants from "enforcing in any manner whatsoever" the existing license agreements and this status was thereafter continued up to the Final Decree.

(9) On the Government's appeal, the Supreme Court announced (340 U. S. at 87) that "good intentions" in the situation of this case was no defense; and that here (p. 88)

this Court had the duty of compelling action to "cure the ill effects of the illegal conduct"—such action not being "limited to prohibition of the *proven means* (italics added) by which the evil was accomplished, but may range broadly through practices *connected with* (italics added) acts actually found to be illegal. * * * The conspirators should, so far as practicable, be denied future benefits from their forbidden conduct." The Court stated (340 U. S. at 89) that "in resolving doubts as to the desirability of including provisions designed to restore future freedom of trade, courts should give weight to the fact of conviction as well as the circumstances under which the illegal acts occur."

Considering this situation, we think the Final Decree should be modified to include a denial of recovery upon the infringement Counts of the USG petitions. Our reasons for this determination are as follows:

The basic thing which made this conspiracy and monopoly possible was the existence of the patent (owned, controlled or applied for) situation. It was the unlawful use by defendants of the monopoly rights, normally inhering in patent grants, which violated the superior rights protected by the Anti-Trust Act. One result of this unlawful use was to create an economic situation where the conspirators—other than USG—had conditioned their business operations upon the continued use of these patent rights which had been given them by the license agreements. When the Supreme Court (333 U. S. 364) determined these license agreements to be violative of the Act, these licensees were placed in an uncertain and perilous position. They were operating based on the licenses which were declared violations of the Act. They elected to disregard the license agreements and to continue use of the patented devices and methods.

We think a close parallel—if not indeed a here controlling guide—is to be found in the two *Hartford-Empire* cases (323 U. S. 386 and 324 U. S. 570). In 323 U. S., one of the two broad issues was whether "the provisions of the decree are right" (p. 393). The District Court had appointed a receiver of Hartford *pendente lite,* whose duties included receipt of royalties from patent licensees under existing licenses from Hartford. A provision of the decree was that these royalties should be repaid to the licensees when the decree became final. In disposing of this provision, the Court (p. 411) directed that the receivership should be wound up; and "The royalties paid to the receiver by Hartford's lessees may, unless the District Court finds that Hartford has, since the entry of the receivership decree, violated the antitrust laws, or acted contrary to the terms of the final decree as modified by this opinion, be paid over to Hartford. In any event Hartford should receive out of these royalties compensation on a *quantum meruit* basis, for services rendered to lessees."

The second appeal (324 U. S. 570) was upon petition of the Government "for clarification or reconsideration" of the opinion on the prior appeal. The Court (p. 571) quoted from its prior opinion what we have just above quoted. The Court (p. 572) disposed of the matter as follows:

> "The Government points out that had it not been for the receivership, many of the licensees (most of whom were not parties to the proceeding) would have paid no further royalties to Hartford, and that they may be able to justify refusal of payment of any royalties from the date of the receivership, and ought not to be put into the position of recovering royalties paid to the receiver, from Hartford.
>
> "It has been open to each of these licensees at any time to repudiate its lease and license, to return the leased machinery, to refuse to pay further rentals or

royalties, and to defend any suit arising out of such refusal to pay, *either for infringement or otherwise* (italics added). It may be that licensees have not taken this course because they relied on the decree as entered by the District Court. In such reliance they may have expected that the moneys paid the receiver would be repaid to them.

"In view of the modifications required by the opinion of this court, such licensees must pay reasonable rental and service charges on a *quantum meruit* basis (leaving out of consideration any amount otherwise payable for the privilege of practicing the patented inventions involved) in respect of the machines used in the interim. Unless Hartford, since the entry of the decree by the District Court, has been guilty of some added violation of the anti-trust laws, licensees must elect (a) to remain licensees on such reasonable rental and royalty basis for the future as the District Court may fix, or (b) repudiate the leases and litigate their rights as against Hartford to retain any portion of the rents and royalties paid. Depending upon such election of each of the lessees, the District Court may, on the application of each, make an appropriate order for the disposition of the fund in the light of the licensees' election and the principles stated in the opinion of this Court."

The here particularly applicable part of this quotation is "In view of the modifications required by the opinion of this Court, such licensees must pay reasonable rental and service charges on a *quantum meruit* basis (*leaving out of consideration any amount otherwise payable for the privilege of practicing the patented inventions involved*) in respect of the machines used in the interim" (italics added).

We think it a fair deduction from the sentence just quoted, that the Court had in mind the differences in the bases of recovery in *quantum meruit* and for infringement; and also the differences in measurement of damages or

recovery for infringement[13] and on *quantum meruit*. The prayer on these infringement Counts is for "not less than a reasonable royalty."

Both because of the practical and legal situation here, and, also, the teaching in the *Hartford-Empire* case, we think the Final Decree should be modified to cover prohibition from prosecuting the USG suits in so far as they are based on patent infringement during the period covered by those suits.

Count III of USG petitions is a common law action of *indebitatus assumpsit* based on a pleaded express contract. That contract and the relief sought are so stated and designed to bring about the identical recovery that would be realized had the actions been for recovery upon the royalties provided in the illegal agreements. This is but a lefthanded, indirect method for recovering such royalties.[14] "Forms of action are a means of administering justice rather than an end in themselves * * *" (1 Am. Jur. p. 439). The Decree should be modified to enjoin prosecution of these Counts (Count III).

Count IV of USG petitions is for *quantum meruit* covering the use of the patents. Under the *Hartford-Empire*

13. This infringement Count V in the USG is brought under 35 U. S. C. A. Sec. 67 which authorizes up to treble damages recovery. These Counts allege willful, deliberate and persistent infringement.

14. This situation reminds of the expression in *International Salt Co.* v. *U. S.*, 332 U. S. 392, 400 where the Court stated:

> "* * * The District Court is not obliged to assume, contrary to common experience, that a violator of the antitrust laws will relinquish the fruits of his violation more completely than the court requires him to do. And advantages already in hand may be held by methods more subtle and informed, and more difficult to prove, than those which, in the first place, win a market. When the purpose to restrain trade appears from a clear violation of law, it is not necessary that all of the untraveled roads to that end be left open and that only the worn one be closed."

opinion (324 U. S. 570, 572), we think this Count is proper and prosecution thereof should not be enjoined unless USG is barred by unpurged misuse of its patents.

IV—MISUSE AND PURGE.

In all that we have heretofore stated in this opinion, we have laid aside consideration of the related issues of misuse of patents by USG and of purge of misuse. These issues are now to be examined. We shall first state the pertinent legal rules and then the factual situation to which the rules are to be applied.

The Law. It is an age-old doctrine of Equity Jurisprudence that equity will deny use of its powers to a wrongdoer. This is the doctrine of "unclean hands." This rule is applicable where the owner of patent rights seeks to extend those rights beyond the limits of his patent monopoly. This is the doctrine of "misuse" of patents. This does not nullify the patent but prevents enforcement of it. Because of the nature of patent grants and because of the nature of this equity doctrine, such owner may, as to *future* protection of his rights and after the baleful effects of the misuse have been fully dissipated, relieve himself of this impediment by ceasing the unlawful use. This is the doctrine of "purge". These rules apply to whatever the form of the suit by the patent owner may be (*Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394, 399-400).[15]

15. Some of the cases applying or illustrating the limits of the matters in this paragraph are *United States* v. *National Lead Co.*, 332 U. S. 319, 335; *Bruce's Juices* v. *American Can Co.*, 330 U. S. 743, 755; *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394, 399-402; *Transparent-Wrap Machine Co.* v. *Stokes & Smith Co.*, 329 U. S. 637, 645; *Hartford-Empire Co.* v. *United States*, 324 U. S. 570, 571-572; *Same* v. *Same*, 323 U. S. 386, 414-419; *Mercoid Corporation* v. *Mid-Continent Invest. Co.*, 320 U. S. 661, 665-672; *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173, 175; *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488,

The Facts. The issues as to facts are: (1) whether there was misuse; (2) whether, if there was misuse, it is shown as matter of law; and (3) whether, if misuse existed, it is shown, as matter of law, to have been purged before this period or is yet an undetermined issue of fact.

We think there was misuse by USG, as matter of law on the facts here, which has not been purged. The reasons for these conclusions follow. The Supreme Court (333 U. S. 364) determined that USG had misused its patents to create various unlawful restraints effecting monopolization of the entire gypsum industry. This misuse extended to price regulation, to suppression of related or similar unpatented products, and to regulation of methods and agencies of distribution. The effective instrumentalities used by USG were patent license agreements containing various restrictive provisions.

One such provision (covering prices) had not been used for some years (since 1941) but the right to use had not been abandoned but expressly retained.

In connection with formation of the first decree (November 7, 1949), USG opposed strenuously a suggested provision declaring the license agreements "illegal, null and void." It contended the provision should go no further than to declare the "minimum price provisions" of the licenses to be "illegal" and that the licenses be "*hereby cancelled and terminated,*" suggesting that the broader provision had the purpose to relieve the licensees "from accounting with respect to anything done before or *after* the decision of the Supreme Court" (italics added).

491-494; *B. B. Chemical Co.* v. *Ellis et al.*, 314 U. S. 495; *Leitch Mfg. Co.* v. *Barber Co.*, 302 U. S. 458, 461-463; *Altoona Publix Theatres* v. *American Tri-Ergon Corporation*, 294 U. S. 477, 493; *Carbice Corporation of America* v. *American Patents Development Corporation*, 283 U. S. 27, 31-35; *Continental Wall Paper Co.* v. *Louis Voight & Sons Co.*, 212 U. S. 227, 256 *et seq.*

On the appeal of the defendants (339 U. S. 960), that Court enjoined defendants "from enforcing in any manner whatsoever the provisions of their current license agreements * * *." This order was made May 29, 1950, and continued in force until the Final Decree (May 15, 1951).

In each of the present USG suits, Counts I and II are expressly based on the old license agreements and seek to recover the royalties provided therein in the amounts provided for and measured by those agreements. Counts III and IV are, respectively, actions of *indebitatus assumpsit* and *quantum meruit* posed on the same underlying factual situation created by the license agreements. The amounts sought in each of those two Counts is precisely the same as stated in Counts I and II—in Count III, the amount is measured as in the agreements. Count V (also Count VI in Newark and Ebsary suits) is for infringement based on deliberate infringement and praying recovery for an amount ("not less than a reasonable royalty") which exactly equals the amount measured by the unlawful agreements.

We think this course of conduct, as clearly shown by the proceedings of record in the Anti-Trust case and in these suits by USG, must be construed as meaning that USG has continued to misuse its patents by seeking recovery, directly and indirectly, on the illegal license agreements up to this time. We think we should exercise our discretion and entertain these petitions on the ground of preventing a multiplicity of actions which affect the complete effectiveness of the Final Decree; and that USG should be enjoined from further prosecution of these actions.

USG urges that "this Court on the record before it knows of a number of facts any one of which constitutes evidence of purge at a time prior to May 15, 1951." USG

then discusses five of such facts, with the reservation that they are "only illustrative and not the only or exclusive facts showing purge." In spite of this cautionary reservation, we must conclude that USG is presenting here those matters which it regards as most potent in showing purge.

The first of these five is that USG did not fix prices, under its licenses, after July 8, 1941. This is true. However, its effect is dissipated by two considerations: first, the notices that minimum prices bulletins would be suspended included the statement that such suspension would continue "until we decide again to exercise our right to do so";[16] and, second, this price fixing provision is inseparably joined with the other provisions found violative of the Act (*Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394; *MacGregor* v. *Westinghouse Elec. & Mfg. Co.*, 329 U. S. 402).

The second claimed purging act is based on the claimed acquiescence of USG to the repudiation of the illegal agreements by Petitioners following the first appeal (333 U.S.). The record herein does not support the claim that USG "acquiesced" in these cessations of payments by Petitioners. The position of USG at that time is more accurately described, by one of its counsel, at the argument before us.[17] Thereafter, nothing appears bearing on "acqui-

16. The "potential power" (*Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436, 458) remained.

17. Counsel stated that the first decision of the Supreme Court (333 U. S.) "came as quite a shock to the old industry. We were not expecting that. And everybody stopped in their tracks as far as these license agreements were concerned.

"The licensees stopped paying royalties. They stopped making reports. As National in its petition sets out, they stopped doing anything under the license, because the Supreme Court had held them unlawful.

"U.S.G. likewise did nothing to try to enforce the license agreements. We just sort of were in a status quo during that period there as far as taking any action. No action was taken by us to enforce them. And that is why, in answer to

escence" until the hearings (June 14, 1949) and the memoranda in connection therewith in respect to the summary judgment and resultant form of decree to be entered thereon. In that connection, USG not only did not claim that the licenses had been rescinded but it urged strongly that only the minimum price fixing provisions were illegal and that, in all other respects, the license agreements should be "cancelled" only as of the date of the decree to be entered. At that time and thereafter, it made clear that it expected to have and waived no rights to have "compensation" for the use of its patents; however, there was no suggestion as to what form enforcement of those rights would take if not voluntarily paid. Not until these USG suits were filed was that made clear. Such suits included Counts for recovery under the unlawful agreements. Throughout, there is no basis for this claimed "acquiescence."

The third claimed purging act is the offer by USG, early in the Spring of 1949 (February or March), of new forms of licenses. Those proffered forms of licenses are not effective as acts of purge, as to our period, for two reasons. First, they were not intended to become effective until the entry of the decree because it was not until that time that the unlawful license agreements were to be "cancelled and terminated" (Article IV, 2 of the form of decree submitted by USG on March 4, 1949). Second, they differed in several respects from the form approved by the Supreme Court (340 U. S. 76). That Court (p. 90) found the definition of gypsum board too restrictive; and also the time limit for applying for new licenses (pp. 93-4).

---

your question, I wanted to postpone it to explain that situation. And that was that no effort was made to audit the books, no royalties were paid during this three-year period that is involved in this litigation out in Iowa, and New Jersey, and New York."

The fourth claimed act of purge is that USG had decided not to appeal from the decree of November 7, 1949, "unless the Government appealed, in which event it felt it would be required to appeal, in self defense." Why either this unacted upon decision not to appeal or why an appeal by the Government should in any way affect this matter of purge is not clear to us. The two appeals (USG and the Government) involved entirely different legal issues and situations. USG appealed from the entry of any decree "on the ground of their right to introduce material evidence" (340 U. S. at p. 82); the Government appealed solely "in an effort to have the provisions of the District Court decree enlarged" (340 U. S. at p. 82).

The fifth purging act (or situation) is that the Supreme Court (339 U. S. 960) enjoined USG, on May 29, 1950, from "enforcing in any manner whatsoever" the price provisions of the license agreements.[18] USG relies upon *Standard Oil Co.* v. *Clark*, 2 Cir., 163 F. 2d 917, 927, cer. den. 333 U. S. 873 and the two *Hartford-Empire* cases (323 U. S. 386, 411 and 324 U. S. 570, 572). In none of these citations was there found any attempt to extend unduly a patent monopoly beyond the entry of the final decree in the anti-trust litigations there involved. In each of these cases, the doctrine of patent misuse and purge was recognized but was found not effective in the situation then before those Courts. The USG suits now pending show conclusively that even yet it is striving to enforce the royalty provisions of the illegal patent license agreements.

We think such an attempt is clear misuse of its patents: that such misuse yet continues; and that to allow prosecution of these suits would weaken the effectiveness of the

18. While not material in connection with this contention of purge, it is true that this injunction went beyond price fixing and extended to "by license or other concerted action arranging the terms and conditions of sale thereof (gypsum board)."

Final Decree. As to *quantum meruit* Counts of the USG petitions, we think it will be sufficient if we enjoin further prosecution on the basis of preventing recovery in a multiplicity of suits wherein the misuse of the patents which were involved in this Anti-Trust suit is shown, as matter of law, to exist and not have been purged.

CONCLUSION.

Our ultimate conclusions upon the issues here are as follows: (1) that we have jurisdiction to entertain and determine the issues presented by Petitioners; (2) that the Final Decree should be modified as indicated in point "III—Modification" of this opinion; (3) that further prosecution of all Counts of the USG suits should be enjoined.

Petitioners are granted thirty days from the filing of this opinion to serve upon opposing counsel and to file with this Court, suggested form of decree and form of Conclusions and Findings.

MINORITY OPINION.

Filed July 6, 1954. Harry M. Hull, Clerk.

IN THE UNITED STATES DISTRICT COURT
For the District of Columbia.

United States of America, *Plaintiff*,
vs.
United States Gypsum Company, *et al.*, *Defendants.*
No. 8017 Civil.

COLE, Judge, dissenting:

In reaching a different conclusion from that presented in the majority opinion, I find it advisable to present this statement of my reasons therefor, which statement becomes brief because of the excellent rehearsal by my colleagues of the background and present status of this litigation.

As so aptly stated by the United States, in its brief, "of course, when a court's jurisdiction is drawn in question this is the threshold question in the case." This litigation was initiated, as the title indicates, by the United States as the sole plaintiff and was against the defendants now appearing as defendant petitioners herein except USG which appears as defendant respondent thereto; also, initially, it had as its basis the protection of the public interest in enforcing provisions of the anti-trust laws. The final judgment, entered therein after many years of intensive litigation, found against all defendants in language clear, concise, and completely capable of interpretation to meet any applicable situation growing out of the relation-

ship which was the subject matter thereof. *Inter alia,* it adjudged unlawful under the anti-trust laws of the United States, and illegal, null and void each of the license agreements listed in the decree.

It is my view that the United States can be the sole spokesman for the public interest. *Buckeye Coal & Railway Company, et al.* v. *Hocking Valley Railway Company, et al.,* 269 U. S. 42. While there have been situations, such as in the case of *Missouri-Kansas Pipe Line Co.* v. *United States, et al.,* 312 U. S. 502, which might be construed, to some extent, as tending to contradict the rule laid down in the *Buckeye* case, *supra,* I do not so regard it.

Article X of the decree in this suit is quite broad in providing that the parties may apply to this Court "at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith," but this does not, in my opinion, contain the right for the defendants to stand in the shoes of, or even with, the United States as a protector of the public interest in litigation of this character and, in so doing, settle their own private differences. Likewise, such litigation, initiated by the United States, will not permit the main action to be encumbered with extraneous issues of a private nature. *United States* v. *Columbia Gas & Electric Corporation, et al.,* 27 F. Supp. 116.

The opposite viewpoint looks for support to *Missouri-Kansas Pipe Line Co.* v. *United States, supra,* which was an anti-trust proceeding wherein a consent decree was entered under which consent decree a stockholder of the defendant corporation had the right to become a party which right he sought to exercise. The Attorney General approved the plan presented by the petitioner for modification of the original decree. It is significant that the court in dealing with this phase of the litigation said:

> • • • This, we are told, "is believed to satisfy the public interest," and so the Government desires to sustain the action of the court below without further litigation. We recognize the duty of expeditious enforcement of the antitrust laws. But expedition cannot be had at the sacrifice of rights which the original decree itself established. We assume that the district court will adjust the right which belongs to Panhandle with full regard to that public interest which underlay the original suit.

Following a rehearsal of the chronological course this lengthy controversy pursued, the United States, in its brief, made this statement:

> It is, of course, probable that the courts in which suits have been brought will give effect to this Court's judgment and dismiss, because of the judgment, all claims based on the voided license agreements. • • •
>
> • • • • •
>
> • • • The position of the United States, as set forth in its petition, is that said final judgment bars enforcement of any claim based in whole or in part upon any license agreement thus adjudged null and void, and that suit to recover upon any such claim constitutes an attempt to defeat the Court's final judgment. The petition prays, by way of relief, that this Court enjoin USG from asserting any claim, and from maintaining, instituting, or threatening to institute any action, based in whole or in part on any license agreement which the Court had adjudged illegal, null and void.
>
> The United States stated in its petition that *it takes no position as to whether USG's alternative claims for recovery on a quantum meruit basis or for infringement, as made in the four foregoing actions, are barred by this Court's final decree of May 15, 1951*, or as to whether this Court should enter an order enjoining USG from prosecuting such alternative claims. (Italics supplied.)

Just why this court, under the circumstances, should feel

called upon, in view of the Government's position, to restrain prosecution of the pending suits in the several district courts and take upon itself the adjudication of the controversy between the defendants when that controversy involves issues, such as the right to recover under *quantum meruit* or infringement, as alleged, when the Government as the sole protector of the public interest in litigation of this character does not join the petitioners in such request for this court to do so, but by inference at least suggests that it is beyond the scope of the decree handed down in these proceedings, I do not appreciate. If this court restrained the prosecution of the pending suits to the extent the Government's position finds the recovery sought herein to be within that prohibited by the final decree, the right, if any, to the petitioning defendant, USG, to recover under *quantum meruit* or infringement would have remained for adjudication in the district courts. Thus, the suits pending therein would continue as presently docketed for trial. Also, the several district courts wherein the suits are now pending are quite capable of construing and interpreting the meaning of the judgment passed in these proceedings, as applied to the pleadings and factual record subsequently to be developed in those courts, and rule thereon accordingly.

I do not find the situation before us as one requiring this court to spell out in supplementation of its original decree every conceivable type of litigation which might develop between the defendants and presumed to have grown out of the relationship stricken down. Neither do I find the existing situation to be one calling for resort to Article X of the judgment by this court in order to construe, carry out, or enforce said judgment. Inherent power rests with this court always in proceedings of this character to enforce its judgments when such appears advis-

able. I do not, however, find need for the application of such power in these proceedings.

In the light of the foregoing expression of my views, I find it unnecessary to discuss other points argued in the case.

IN THE UNITED STATES DISTRICT COURT
For the District of Columbia.

United States of America,
Plaintiff,
vs.
United States Gypsum Company, et al.,
Defendants.
No. 8017 Civil.

In re Petitions of National Gypsum Company, et al., *Petitioners, vs.* United States Gypsum Company, *Respondent.*

FINDINGS OF FACT.

Filed, Dec. 9, 1954, Harry M. Hull, Clerk.

1. On August 15, 1940, the United States brought an Anti-trust action (Civil Action No. 8017) against United States Gypsum Company, National Gypsum Company, Certain-teed Products Corporation, The Celotex Corporation, Ebsary Gypsum Company, Inc., Newark Plaster Company, et al., which were engaged in the mining of gypsum rock and in the manufacture and sale of gypsum products. The complaint charged a violation of Sections 1, 2 and 3 of the Sherman Act by reason of the defendants' activities in the manufacture and sale of gypsum products, carried out in part under the guise of patent license agreements entered into by U. S. Gypsum, as licensor, and by National, Certain-Teed, Ebsary, Newark and other companies, as licensees. For a more detailed statement of the

issues, reference is made to the opinion of Chief Judge Stephens narrating the facts and issues on the trial of the case (*U. S.* v. *U. S. Gypsum Co. et al.*, 67 F. Supp. 397).

2. The case came on for trial in due course and at the close of evidence for the United States, this statutory court of three judges on June 15, 1946 determined, among other things (67 F. Supp. 397), that, under its construction of *United States* v. *General Electric Co.* (272 U. S. 476), the separate license agreements were legal (67 F. Supp. at pp. 421-441); and that these agreements were made *bona fides* with no ulterior purpose to violate the Act (67 F. Supp. at pp. 458-484). The Court sustained a motion to dismiss the complaint under Rule 41(b) of the Federal Rules of Civil Procedure upon the ground that on the facts and the law the Government had shown no right to relief (*U. S.* v. *U. S. Gypsum Co., et al.*, 67 F. Supp. 397).

3. The Government appealed and the Supreme Court reversed and remanded "for further proceedings in conformity with this opinion." (333 U. S. 364, 402). This decision was on March 8, 1948 with rehearing denied on April 5, 1948 (333 U. S. 869).

4. The Supreme Court (333 U. S. 364), on the *prima facie* case, decided that the industry-wide license agreements, entered with mutual knowledge of the licensor and and of all of the different licensees, under which prices and distribution methods would be controlled, established an unlawful conspiracy and monopoly; and that "* * * regardless of motive, the Sherman Act barred patent exploitation of the kind that was here attempted" (p. 393).

5. The Supreme Court (333 U. S. 364) determined that USG had misused its patents to create various unlawful restraints effecting monopolization of the entire gypsum industry. This misuse extended to price regulation, to

suppression of related or similar unpatented products, and to regulation of methods and agencies of distribution. The effective instrumentalities used by USG were patent license agreements containing various restrictive provisions. Such agreements covered control (a) of prices of patented gypsum board, (b) control or affection of prices of unpatented gypsum products, and (c) control over terms and conditions of sale and distribution thereof.

6. One result of the patent misuse was to create an economic situation where the conspirators — other than USG—had organized their manufacturing plants and conditioned their business operations upon the continued use of these patent rights which had been given them by the license agreements.

7. When the Supreme Court (333 U. S. 364) determined these license agreements to be violative of the Act, these licensees were placed in an uncertain and perilous position. They were operating based on the licenses which were declared violations of the Act. They elected to disregard the license agreements and to continue use of the patented devices and methods.

8. Almost immediately following this opinion of the Supreme Court, each of the four defendant petitioners stopped paying accrued or future royalties or paying otherwise for use of the patents covered by the license agreements. No payments of any kind were made until new compulsory licenses were granted, under the Final Decree, to National and Certain-teed, which were retroactive to May 15, 1951, the date of the Final Decree. Ebsary and Newark did not take out new licenses.

9. After rehearing was denied (April 5, 1948, 333 U. S. 869), this Court held a conference of counsel which resulted ultimately in a motion by the Government for summary judgment, it being claimed that there was no

genuine fact issue remaining to be determined. Various defendants filed offers of proof as to fact matters they deemed yet in issue. These two occurrences were in June 1948. Beginning in June 1948 and extending to June 14, 1949, numerous briefs and memoranda were filed by the various parties in connection with the motion for summary judgment, the offer of proofs, suggested findings of fact, and form and contents of decree to be entered.

10. On June 14, 1949 this Court held an extended hearing upon all of these matters. At the hearing, a majority of this Court made clear their intention to sustain the motion for summary judgment; and counsel for all parties were given time to file suggestions and memoranda as to form of decree and other pertinent matters. Such suggestions and memoranda were filed up to August 12, 1949. Without further hearing, this Court entered its decree of November 7, 1949.

11. The hearing of June 14, 1949, and the written or printed suggestions and memoranda of the parties filed before, in connection with, and after that hearing, had to do, among other things, with various suggestions as to the form of decree to be entered, including the scope and purposes of what later became, in substance, Articles III, IV and VI of that decree. Practically all of the matters were concerned with prevention of violation in the future, that is, after the effective date of the decree to be entered. However, USG was much concerned with avoiding any provision in the decree declaring the licenses illegal, null and void in their entirety. In this connection it voiced its apprehensions as to whether these petitioners would be absolved from payment of royalties for the period involved here by such a provision in the decree.

12. In a Reply Memorandum filed by USG (July 23, 1949), are the following statements:

"The defendant licensees can have no purpose in making the suggestion that each patent license be adjudged illegal except to obtain some advantage with respect to the use of the patents. They apparently believe it will relieve them from accounting for anything done either before or after the Supreme Court's decision." (P. 6.)

"They have no right of any kind to Gypsum's patents in the future any more than if their licenses had expired without this litigation. With the cancellation of their present licenses they should only be placed in *statu quo* to the extent that any licensee desires to continue the use of any of Gypsum's patents under which it is presently licensed." (P. 8.)

"In the first place, Newark seeks a provision that each of the license agreements be adjudged unlawful under the anti-trust laws and illegal, null and void, which not only goes beyond the scope of the determination by this court upon the motion for summary judgment but has for its purpose an attempt to be relieved from accounting, as stated before in this memorandum." (P. 9.)

"National like Newark, is one of those companies which seeks to have the entire license contract declared illegal, apparently believing it will relieve them from accounting with respect to anything done before or after the decision of the Supreme Court." (P. 15.)

13. The main contention between USG (on one side) and the Government and the other defendants (on the other side) was whether the declaration of illegality in the proposed decree should be confined to the price-fixing provision in the license agreements or whether it should apply *in toto* to the entire license agreements. Strenuously, USG contended for such limitation to the price-fixing provisions. This appears not only in its arguments and briefs in connection with the June 14, 1949 hearing but in its original suggestions as to prospective Articles III, IV, V, and VI. As a companion and resultant posi-

tion, USG urged that, while only the minimum price provision should be declared illegal, the existing agreements should be *cancelled, as of the date of the decree.* The result of and purpose of these contentions would be to leave the agreements valid—therefore enforceable—until entry of the decree, except for the minimum price provision. It was in this setting and in relation to these contentions, that USG expressed its apprehensions above set out. The contest was whether the agreements were illegal only as to minimum price provisions or *in toto.*

14. The decree of November 7, 1949 adopted the contention of the Government and the licensees and declared the agreements "illegal, null and void" in their entirety.

15. When this Court granted a summary judgment on the remand and entered its decree, both the Government and defendant USG appealed. The Government objected to the decree as being too narrow and as inadequate to cure the ill effects of the illegal conduct of the defendants. USG contended its proffer of proof revealed issues of fact which this Court should have determined instead of granting the summary judgment.

16. On May 29, 1950, the Supreme Court dismissed the appeal of the defendants (339 U. S. 959) in a memorandum (339 U. S. 960) wherein it affirmed Article III of the November 7, 1949, decree and stating:

> "• • • Article III of the decree of the District Court of November 7, 1949, reading as follows: 'The defendant companies have acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board and have monopolized trade and commerce in the gypsum board industry in violation of sections 1 and 2 of the Sherman Anti-trust Act,' is affirmed. The corporate defendants and Samuel M. Gloyd, doing business as Texas Cement Plaster Company, are en-

joined, pending further order of this Court, from (1) enforcing in any manner whatsoever the provisions of their current license agreements fixing, maintaining, or stabilizing prices of gypsum board or the terms and conditions of sale thereof, and (2) from entering into or performing any agreement or understanding in restraint of trade and commerce in gypsum board among the several states in the eastern territory of the United States by license agreements to fix, maintain or stabilize prices of gypsum board or by license or other concerted action arranging the terms and conditions of sale thereof."

17. On the appeal by the Government, the Supreme Court altered and broadened some of the provisions of the decree of November 7, 1949 and remanded the case "for further proceedings in conformity with the opinion" (340 U. S. 76, 95). In that opinion there was no direct reference to a situation such as is now presented to the Court arising from these USG suits; Article IV of the decree of November 7, 1949 of this Court which declared the license agreements illegal, null and void in their entirety was not changed.

18. On appeal by the Government, the Supreme Court also extended its injunction order of May 29, 1950 (339 U. S. 960) to be "continued in effect until the entry of a final decree in the District Court."

19. On May 15, 1951, this Court modified its earlier decree in accordance with the opinion of the Supreme Court. In connection with the formation of this decree, the plaintiff and various defendants submitted suggested forms for a decree. In none of these forms was there any provision as to whether or not USG was to receive compensation for use of its patents during the period (1948-1951) covered by the pending USG suits. The forms contained provisions for future licensed use thereof on a reasonable royalty basis. There was no appeal therefrom. This is the present Final Decree.

20. The pattern of the Final Decree of ten Articles is as follows: Article I is the jurisdictional declaration; Article II is the definition of terms used in the Decree, these include "Patents" and "Patent Licenses"; Article III declares the defendants have acted in concert to violate Sections 1 and 2 of the Act; Article IV is that "Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void"; Article V contains the injunction provisions; Article VI covers non-discriminatory compulsory license agreements from USG to applicants therefor, subject to approval of the District Court; Articles VII and IX are not material here; Article VIII provides for supervision by the Department of Justice to secure compliance with the Decree; Article X is the reservation of jurisdiction for the purposes of construction of, carrying out of, or enforcement of the Decree.

21. A condensation of the method or plan of the Decree to remedy the unlawful situation may be stated as follows: by annulling the existing named license agreements; by injunction against acts which would tend to defeat the Decree; by use of new compulsory Court supervised license agreements; by Department of Justice supervisory inspections; and by retention of jurisdiction to protect and effectuate the purposes of the Decree.

22. USG did not purge the misuse of its licensed patents. USG urges five facts which it claims (separately or cumulatively) constitute evidence of purge at a time prior to May 15, 1951. These are as follows:

> A. That USG did not fix prices, under its licenses, after July 8, 1941. This is true. However, its effect is dissipated by two considerations: first, the notices that minimum prices bulletins would be suspended included the statement that such suspension would continue "until we decide again to exercise our right to do so"; and, second, this price-fixing provision is

inseparably joined with the other provisions found violative of the Act.

B. The claimed acquiescence of USG to the repudiation of the illegal agreements by Petitioners following the first appeal (333 U. S.). The record herein does not support the claim that USG "acquiesced" in these cessations of payments by Petitioners. In connection with the form of decree to be entered after summary judgment was granted, USG not only did not claim that the licenses had been rescinded but it urged strongly that only the minimum price-fixing provisions were illegal and that, in all other respects, the license agreements should be "cancelled" only as of the date of the decree to be entered. At that time and thereafter, it made clear that it expected to have and waived no rights to have "compensation" for the use of its patents; however, there was no suggestion as to what form enforcement of those rights would take if not voluntarily paid. Not until USG filed its suits against Petitioners was that made clear. Such suits included, among others, Counts for recovery under the unlawful agreements. Throughout, there is no basis for this claimed "acquiescence".

C. The offer by USG, early in 1949 (February or March), of new forms of licenses. Those proffered forms of licenses are not effective as acts of purge, as to the period covered by the pending USG suits, for two reasons. First, they were not intended to become effective until the entry of the decree because it was not until then that the unlawful license agreements were to be "cancelled and terminated" (Article IV, 2 of the form of decree submitted by USG on March 4, 1949). Second, they differed in several respects from the form approved by the Supreme Court (340 U. S. 76).

D. USG's decision not to appeal from the decree of November 7, 1949, "unless the Government appealed, in which event it felt it would be required to appeal, in self defense." Neither this unacted upon decision not to appeal nor an appeal by the Government in any way affects this matter of purge. The two appeals (USG and the Government) involved entirely

different legal issues and situations. USG appealed from the entry of any decree "on the ground of their right to introduce material evidence" (340 U. S. at p. 82); the Government appealed solely "in an effort to have the provisions of the District Court decree enlarged" (340 U. S. at p. 82).

E. The fact that the Supreme Court (339 U. S. 960) enjoined USG, on May 29, 1950, from "enforcing in any manner whatsoever" the price provisions of the license agreements. The USG suits now pending show conclusively, however, that even now it is striving to enforce the royalty provisions of the illegal patent license agreements.

Neither taken separately nor cumulatively do any or all of these matters amount to evidence of purge by USG of its misuse of its patents.

23. In January, February or March, 1953 USG filed separate similar actions against four of the other corporate defendants in the Anti-trust action. These suits were against the National Gypsum Company, in the Northern District of Iowa; Certain-Teed Products Corporation, in the same District; Newark Plaster Company, in the District of New Jersey; and the Ebsary Gypsum Company, in the Southern District of New York. Each of these suits was based on alternative claims for royalties or for the reasonable value of the use of certain of its patents or for damages because of infringement. The time period covered by each of these four suits was, roughly, from the first opinion by the Supreme Court (March 8, 1948), to the date of the Final Decree (May 15, 1951), and, as to Newark and Ebsary, up to the filing of the complaint against each of them.

24. In these suits USG seeks judgment against National for $1,600,000; against Certain-Teed for $650,000; against Ebsary for $100,000 on Counts I and II and in the alternative $160,000 on Counts III, IV and V, and $85,000 on

Count VI; against Newark for $120,000 on Counts I and II and in the alternative $185,000 on Counts III, IV and V, and $100,000 on Count VI; and interest (except as to Counts V and VI) and costs of suit against each defendant.

25. USG also asserted claims against The Celotex Corporation and against Kaiser Gypsum Company for the alleged use of its licensed patents for the period from February 1 or March 1, 1948 to May 15, 1951.

26. The complaints filed by USG in the various District Courts contain five Counts each in the actions against National and Certain-Teed, and six Counts each in the actions against Ebsary and Newark.

27. The first two Counts of all four complaints are directly or indirectly based on the license agreements set forth in Article II of the decree of November 7, 1949.

28. Count III of the USG complaints is a common law action of *indebitatus assumpsit* based on a pleaded express contract. That contract and the relief sought are so stated and designed to bring about the identical recovery that would be realized had the actions been for recovery upon the royalties provided in the illegal agreements. The amounts sought in Count III of the Ebsary and the Newark suits are more than under Counts I and II thereof because of the different periods of time involved.

29. Count IV of the USG complaints is for *quantum meruit* covering the use of the patents.

30. Counts V and VI of the USG complaints allege infringement of USG's patents.

31. The amounts sought in Counts III-V of these suits for the period prior to the Final Decree are precisely the same as the amounts as measured by and sought as royalties in Counts I and II. In Counts I and II the amounts are sought to be recovered by means of enforcing the covenant to pay in the old unlawful license agreements.

32. The patent alleged to be infringed in the USG suits against National Gypsum Company and Certain-Teed Products Corporation is patent Roos No. 2,017,022. The USG suits against Newark Plaster Company and Ebsary Gypsum Company allege in addition infringement of patents Roos Nos. 2,079,338; 2,080,009; and 2,044,401 for the period prior to and after May 15, 1951. All of the foregoing patents were licensed by USG under one or more of the patent licenses defined and enumerated in paragraph 5 of Article II of the Final Decree of May 15, 1951.

33. Application for patent No. 2,044,401 was filed by Roos on August 15, 1929 and later assigned to USG, to which the patent was issued on June 16, 1936. This patent related to the use of dextrinized starch in gypsum board core composition and method of manufacturing same. This patent was an improvement patent and, as such, was included as paragraph 18 of the licenses to Newark and Ebsary. (See transcript in the Supreme Court, October Term, 1947, No. 13, pp. 4416 and 4488.)

34. Seasonably after entry of the Final Decree, National and Certain-Teed applied for and received licenses thereunder. Newark and Ebsary have never applied therefor. In the USG complaints against Newark and Ebsary, it seeks recovery (Counts I-II) for license royalties on patents covered by the old licenses—that recovery included only the period ending with the Final Decree. Each of the succeeding Counts sought recovery "to the date of filing this complaint."

35. Neither Newark nor Ebsary have filed answer in the USG suits. The Court was informed in this presentation that such answers would include a denial of use of these USG patents during the period subsequent to May 15, 1951. Such defenses would pose the direct issue of infringement *vel non* since the Final Decree.

36. The defendant in each of the four suits filed by USG, hereinabove described, has filed in this Court and as a proceeding in this case (Civil Action No. 8017) its separate petition to enjoin the USG suit against it and for associated relief. Very broadly stated, these petitions are based on claimed protection of the Final Decree in the Anti-trust case, on misuse of patents, and on prevention of a multiplicity of actions. Stay orders have been entered in the two Iowa District cases to await action here. We have no information of any similar action in the two other cases.

37. The United States has filed a petition to enjoin USG from asserting any claim or suit "in whole or in part on any of the license agreements adjudged illegal, null and void by the final decree of this Court entered on May 15, 1951, or on any provision thereof." As to any claim based on such license agreements, the United States alleges that such "are barred by, and constitute an attempt to defeat, said decree." As to any "alternative claims" set forth in such four suits, the United States "takes no position" as to whether or not they are barred by the Final Decree.

CONCLUSIONS OF LAW.

(Filed Dec. 9, 1954, Harry M. Hull, Clerk.)

1. Defendant Petitioners are parties to the original Anti-trust suit asserting rights under the Final Decree. Where a decree specifically or by fair implication accords rights to parties thereto, the parties have a standing to enforce such rights in a manner consonant with the underlying purposes of the decree. Petitioners have standing to apply to this Court for enforcement, construction or the carrying out of the Final Decree.

2. This Court has jurisdiction to entertain and deter-

mine the issues presented by Petitioners because such jurisdiction is expressly reserved by Article X of the Final Decree.

3. In addition to such expressly reserved jurisdiction, this Court has jurisdiction to entertain and determine the issues presented by Petitioners based on the inherent power of a court of equity to compel obedience to its decrees. Where it is seriously contended, as here, that the suits brought by USG do violate the Final Decree, this Court has jurisdiction to determine whether such violation exists; and, if it does exist, how it may be cured.

4. This Court has jurisdiction to entertain and determine the issues presented by Petitioners based on its jurisdiction to implement the Final Decree to effectuate its basic purposes. One method of seeking such implementation is by petition in the original action.

5. This Court has jurisdiction to entertain and determine the issues presented by Petitioners based on the long-established discretionary jurisdiction of an equity court to prevent multiplicity of actions. Such jurisdiction is present here because of the four present suits by USG and also the claims against Celotex and Kaiser. The matter of possible misconstruction or diversity of construction of the Final Decree is a reason for taking jurisdiction where there is a claimed multiplicity of actions, each involving the meaning and application of the Decree and affecting the complete effectiveness of the Decree.

6. It is not controlling as to the existence of jurisdiction that Petitioners might urge the Final Decree as a defense in the USG suits. That fact does not affect the existence of jurisdiction in this Court. It is relevant merely on the question whether this Court, in its discretion, should exercise such jurisdiction instead of leaving the issues to be determined in the USG suits.

7. Article IV of the decree of November 7, 1949 nullified completely the license agreements listed in Article II. This nullification did not create a status. It simply declared a status which had existed since the granting of the patent licenses. Article IV passed into the Final Decree unchanged. Accordingly USG should be enjoined from further prosecuting the first two Counts in each of the four suits brought by it against the Petitioners, since these Counts clearly violate the express provisions of Article IV.

Article IV of the Final Decree did not expressly nor impliedly cover the character of suits now brought by USG for infringement or for *indebitatus assumpsit* or for *quantum meruit*. It neither allowed nor forbade such.

8. The purpose and permissible function of an order for modification of an anti-trust decree is to cover something within the broad purposes of the decree but which, for some proper reason, was not included in the existing decree. Almost always such modifications are concerned with remedies. Usually they concern situations which were either overlooked at the time the decree was entered or which have arisen or developed after the decree.

9. The power to make any proper modification of the Final Decree is expressly reserved in Article X. That Article performed the function of expressly reserving jurisdiction to take further action, if experience thereafter should make such necessary or advisable, fully to effectuate the purposes of destroying the monopoly and the conspiracy and denying the fruits thereof. The Court has power to make any modification which will, "so far as practicable, cure the ill effects of the illegal conduct * * *" (340 U. S. at pp. 88-89).

10. In addition to such expressly reserved power, this Court as a court of equity has inherent power to modify

its decrees so as to make them fully effective, provided, however, that the decree may not be enlarged beyond its intended proper scope by the medium of modification.

11. The course of conduct of USG, as clearly shown by the proceedings of record in the Anti-trust case and in these suits by USG, establish that USG did not purge itself of its patent misuse at any time prior to May 15, 1951. The five acts claimed by USG to constitute acts of purge prior to May 15, 1951 do not constitute purge.

12. In view of the misuse by USG of its patents as a matter of law on the facts here, which has not been purged, all claims of USG are barred, and USG should be enjoined from further prosecution of all Counts of these actions.

13. The course of conduct of USG, as clearly shown by the proceedings of record in the Anti-trust case and in the suits by USG, must be construed as meaning that USG has continued after May 15, 1951 to misuse its patents by seeking recovery, directly and indirectly, on the illegal license agreements up to this time. The attempt by USG to enforce the royalty provisions of the illegal patent license agreements is clear misuse of its patents; such misuse yet continues; and to allow prosecution of these suits, would weaken the effectiveness of the Final Decree.

14. Count III of the USG petitions, for *indebitatus assumpsit*, is but a left-handed, indirect method for recovering the royalties provided in the illegal license agreements. The Decree should be modified to enjoin prosecution of Count III of the USG petitions.

15. Count IV of the USG petitions, the *quantum meruit* Counts, are enjoined on the basis of preventing recovery in a multiplicity of suits wherein the misuse of the patents which were involved in this Anti-trust suit is shown, as a matter of law, to exist and not to have been purged.

16. Both because of the practical and legal situation in

this case, and, also, the teaching in the *Hartford-Empire* case, the Final Decree should be modified to cover prohibition from prosecuting the USG suits insofar as they are based on patent infringement during the period covered by those suits.

ORDER.

(Rubber Stamped) Filed, Dec 9 1954, Harry M. Hull, Clerk.

The foregoing thirty-seven Findings of Fact and the foregoing sixteen Conclusions of Law are found and adopted by a majority of the Court. Except as contained, in substance, in the foregoing, all requests or proposals for Findings or for Conclusions are denied.

Dated this 9 day of December, 1954.

/s/ KIMBROUGH STONE,
Judge,
/s/ EUGENE WORLEY,
Judge.

For the reasons stated in the dissenting opinion filed herein on July 6, 1954, I dissent from the foregoing Findings of Fact and Conclusions of Law and think these actions by Petitioners should be dismissed for lack of jurisdiction.

/s/ WILLIAM P. COLE, JR.,
Judge.

IN THE UNITED STATES DISTRICT COURT
For the District of Columbia.

United States of America, *Plaintiff*,
vs.
United States Gypsum Company, et al., *Defendants.* } No. 8017 Civil.

In re Petitions of National Gypsum Company, et al., *Petitioners*, *vs.* United States Gypsum Company, *Respondent.*

DECREE.
Filed, Dec. 9, 1954, Harry M. Hull, Clerk.

Petitions having been filed in this Court by defendants, National Gypsum Company, Certain-Teed Products Corporation, Newark Plaster Company, and Ebsary Gypsum Company, Inc., on March 25, April 22, May 13, and June 3, 1953, respectively, for orders, modifications or directions for the enforcement, construction or carrying out of the Final Decree of May 15, 1951 and

Plaintiff United States of America, having filed on June 30, 1953 its petition for order or directions for the construction, carrying out or enforcement of the Final Decree of May 15, 1951, and

Defendant United States Gypsum Company, having filed on September 8, 1953 separate answers to each of the above petitions, and

The Court, having read and considered said petitions

and answers, and having heard the oral arguments of Counsel for all of the above parties on January 12 and 13, 1954, and having read and considered the briefs filed by them, and having rendered its majority and dissenting opinions on July 6, 1954,

IT IS THEREFORE ORDERED, ADJUDGED AND DECREED:

1. This Court has jurisdiction of the subject-matter of said petitions and of the parties hereto.

2. The Final Decree of this Court of May 15, 1951 is hereby modified by adding to Article V thereof a paragraph reading:

> Defendant United States Gypsum Company is hereby ordered and directed to discontinue and to dismiss, with prejudice to United States Gypsum Company, its pending actions as follows: against National Gypsum Company, in the United States District Court for the Northern District of Iowa; against Certain-Teed Products Corporation, in the same District Court; against Newark Plaster Company, in the United States District Court for the District of New Jersey; and against Ebsary Gypsum Company, Inc., in the United States District Court for the Southern District of New York.

3. Costs arising out of these proceedings instituted by Petitioners shall be assessed against United States Gypsum Company.

Dated this 9 day of December, 1954.

/s/ KIMBROUGH STONE,
Judge,
/s/ EUGENE WORLEY,
Judge.

For the reasons stated in the dissenting opinion filed herein on July 6, 1954, I dissent from the foregoing Decree and think these actions by Petitioners should be dismissed for lack of jurisdiction.

/s/ WILLIAM P. COLE, JR.,
Judge.

IN THE UNITED STATES DISTRICT COURT
For the District of Columbia.

United States of America, *Plaintiff*,
vs.
United States Gypsum Company, et al., *Defendants.* } No. 8017 Civil.

In re Petitions of National Gypsum Company, et al., *Petitioners*, *vs.* United States Gypsum Company, *Respondent.*

MEMORANDUM.
Filed, Dec. 9, 1954, Harry M. Hull, Clerk.

Before the HONORABLE KIMBROUGH STONE, *United States Circuit Judge* and the HONORABLE EUGENE WORLEY and the HONORABLE WILLIAM P. COLE, JR., *Judges of the United States Court of Customs and Patent Appeals*, sitting as *District Judges.*

PER CURIAM: Under the majority opinion filed herein on July 6, 1954, Petitioners were granted thirty days thereafter to serve upon opposing counsel and to file with this Court, "suggested form of decree and form of Conclusions and Findings." Thereafter, United States Gypsum Company[1] was granted until September 17, 1954 to file objections to any suggested forms of Findings, Conclu-

1. For convenience, United States Gypsum Company is hereinafter designated as USG.

sions and Decree so filed by Petitioners. National Gypsum Company filed an answering memorandum on October 11, 1954. On October 18, 1954, USG filed a motion for reconsideration and rehearing with supporting memorandum. On October 21, 1954, Newark Plaster Company and Ebsary Gypsum Company, Inc. filed a joint answering memorandum to the Objections, etc. of USG. On October 22, 1954, National filed a memorandum of authorities opposing the above motion of USG.

FIRST.

The Objections and Suggestions of USG are stated in two "Parts" as follows:

> "* * * Part I presents basic errors inherent in the proposed findings, conclusions and decree because they incorporate findings and conclusions from the majority opinion which are erroneous and which should therefore be given further consideration by the Court. Part II deals with specific detailed objections and suggestions regarding the proposed findings of fact, conclusions of law and decree."

Part I concludes with the statement following:

> "U. S. Gypsum respectfully urges that, in view of the matters hereinbefore presented, this court reconsider its opinion of July 6, 1954, and afford an opportunity for further hearing with respect thereto, before it formalizes the opinion by the entry of findings of fact, conclusions of law, and amendment to the decree of May 15, 1951."

It is thus clear that Part I is not directed to the matter of aiding the Court in its formation of Findings, Conclusions and Decree to express the determinations reached in the majority opinion. Rather it is in the nature of a petition for rehearing which argues the merits of the matters covered in that opinion.

The direction to Petitioners (in the majority opinion) and the later order giving USG leave, until September 17, to file objections and suggestions was each definitely confined to matters having to do with formulation of Findings, of Conclusions and of a decree. There can be no doubt of this. Therefore, Part I of USG's Objections and Suggestions was not covered by the leave granted it. The Court might well have disregarded Part I or have stricken it of its own motion or it might have heard and considered it on its merits. Such choice resting upon "its inherent power to direct a case so as to aid in its disposition" (*United States* v. *United States Gypsum Co., et al.*, 340 U. S. 76, 81).

This choice necessitated no immediate determination until the receipt of a letter from Judge Rosenman.[2] The letter requested leave to "answer USG's argument on the merits", such answer to be restricted however to "the new contentions raised by USG"; and stating such memorandum would be filed by October 11, only one week after receipt of the letter by Judge Stone. At the same time, there was insistence that Part I should not be considered.[3]

---

2. While dated in New York City as of September 27, the letter was directed to Judge Stone in Washington, D. C. from where it was forwarded to him at Kansas City, Mo., first coming to his attention the morning of Monday, October 4.

3. The text of the letter follows.

"ROSENMAN GOLDMARK COLIN & KAYE
"575 Madison Avenue New York 22

"Samuel I. Rosenman
"Godfrey Goldmark
"Ralph F. Colin
"Sydney M. Kaye
"Walter J. Petschek
"Max Freund
"Ambrose Doskow
"Seymour D. Lewis

"Murray Hill 8-7800

"September 27, 1954

"Hon. Kimbrough Stone
"United States District Court
"for the District of Columbia

(*Footnote Continued on p. 85A*)

Thus was created a somewhat complicated situation which seemed to require immediate action as to whether the Court would consider Part I, and if so, to what extent.

"Washington 1, D. C.

"Re: U. S. v. U. S. Gypsum, et al.

"Civil Action No. 8017

"Dear Judge Stone:

"On September 17th, the United States Gypsum Company served upon National Gypsum Company a Memorandum entitled 'United States Gypsum Company's Objections and Suggestions with Respect to Petitioners' Proposed Findings of Fact, Conclusions of Law, and Decree', which, without leave of Court, reargues issues decided by the Court's opinion of July 6th, and sets forth several new arguments in support of USG's contentions.

"Your Honor will recall that under the Court's opinion, permission was granted only to Petitioners to file a suggested form of findings, conclusions and decree. Thereafter, upon consent of petitioners National and United States of America, an order was entered on July 27, 1954, that 'the respondent United States Gypsum Company shall have to and including September 17, 1954 within which to serve upon Petitioners' counsel and file with the Court objections or suggestions with respect to the form or forms of Decree and form or forms of Conclusions and Findings so served upon its counsel by the Petitioners or any of them.' No authority was granted to USG to reargue any of the issues determined by this Court.

"It is respectfully requested that the Court permit National to file, along with its answer to USG's objections and suggestions with respect to the form of the decree, findings and conclusions, its answer to USG's arguments on the merits. National's answer to USG's argument on the merits will restrict itself, however, to answering only the new contentions raised by USG. National proposes, if the Court so permits, to file its Memorandum by October 11, 1954.

"We urge, however, that the Court disregard USG's reargument and our answers thereto; that the Court reject USG's request for further oral argument; and that the Court limit its consideration solely to the matter of the form of the findings, conclusions and decree.

"Respectfully submitted,

"/s/ SAMUEL I. ROSENMAN,

"Samuel I. Rosenman

"cc: Hon. Eugene Worley

"Hon. William P. Cole

"Edward Knuff, Esquire

(*Footnote Continued on p. 86A*)

The Judges (on October 4) discussed this situation by long distance telephone. The result was unanimous agreement that it would be more orderly not to consider the matters covered by Part I in connection with formulation of the Findings, Conclusions and decree; that accompanying such formulation, an order denying Part I without prejudice to USG would be entered; and that Judge Rosenman would be informed by Judge Stone that he need not an-

---

"South S.E.C. Bldg. Room 2441
"2nd & Indiana Avenues
"Washington, D. C.
"Attorney for United States of America

"Hugh Lynch, Jr., Esquire
"1625 K Street, N.W.
"Washington 6, D. C.

"Bruce Bromley, Esquire
"Cravath, Swaine & Moore
"15 Broad Street
"New York, New York

"Cranston Spray, Esquire
"MacLeish, Spray, Price & Underwood
"134 So. LaSalle Street
"Chicago 3, Illinois
"Attorneys for U. S. Gypsum Company

"Norman A. Miller, Esquire
"Messrs. Clausen, Hirsh & Miller
"135 South LaSalle Street
"Chicago 3, Illinois
"Attorney for Certain-Teed Products Corporation

"Albert E. Hallett, Esquire
"Dallstream, Schiff, Stern & Hardin
"231 South LaSalle Street
"Chicago 4, Illinois
"Attorney for Celotex Corporation

"Joseph S. Rippey, Esquire
"612 Powers Building
"Rochester 14, New York
"Attorney for Ebsary Gypsum Company, Inc.

"Benjamin P. DeWitt, Esquire
"DeWitt, Pepper & Howell
"120 Broadway
"New York 5, New York
"Attorney for Newark Plaster Company"

swer Part I in the memorandum to be filed by October 11. Later the same day, Judge Rosenman was informed that he need not answer this Part I.

This memorandum by Judge Rosenman was transmitted to the Clerk of the Court with a letter addressed to Judge Stone and reading, in part,

> "However, in accordance with your instructions by telephone to Judge Rosenman on October 4th, National's Memorandum has omitted any answer to U. S. Gypsum's arguments on the merits, and is restricted to the matter of the form of the findings, conclusions and decree."

Shortly thereafter (October 18, 1954), USG filed its motion that the Court

> "reconsider its apparent denial of the right of U. S. Gypsum to petition for reconsideration and for rehearing in respect to the manifest errors of law and of fact embodied in the court's opinion of July 6, 1954 * * * set forth in U. S. Gypsum's Objections and Suggestions * * * further moves that this motion be set down for hearing * * *".

The motion claims such right of consideration and rehearing also under Civil Rule 59(a) governing new trials.

As stated above, the plan of the Court was to deny consideration of Part I at the time of and in connection with its determination of Findings, Conclusions and Decree, without prejudice to USG. USG has no uncontrolled right to argue the merits of the majority opinion before that opinion has been formalized into a Decree. Any earlier presentation is entirely within the discretion of the Court as to whether such presentation would be helpful to the Court. The Court might have constructed its own Findings, Conclusions and Decree without seeking aid from counsel for any of the parties. It saw fit to ask that aid, to be furnished through suggestions as to

those matters. Those requests were specifically limited and cannot properly be tortured into any allowance of discussion of the merits of the determinations stated in the majority opinion. Rule 59(a) has no application until the entry of a Decree, which creates the situation where the Rule becomes activated. The motion of USG has exactly the same purposes as Part I of its Objections and Suggestions. It will be disposed of in like manner.

The Court prefers to follow the regular procedure by stating its determinations as to Findings, Conclusions and Decree in proper definite form at this time, leaving USG to challenge the thus completed statement of such determinations by such methods as it may be then advised.

An order is this day entered denying consideration of Part I and denying USG's motion for reconsideration and rehearing. Each of such denials is entirely without prejudice to USG to present, after entry of decree herein, such proper matters as it may deem advisable. All three Judges join in this disposition of these two matters.

SECOND.

The immediate engagement of a majority of the Court (Judges Stone and Worley) is to state the Findings of Fact and the Conclusions of Law, which are the bases for a Decree, and to settle the terms of such a Decree. In this undertaking, the Court has been much aided by the proposals and observations both of Petitioners and of USG.

Separately or generally to analyze and discuss the numerous Suggestions, Objections, and Counter-Suggestions would serve no useful purpose. The Findings made, the Conclusions stated and the Decree entered by the Court will evidence our consideration of all that counsel for the parties have brought to us.

However, to prevent misunderstanding, it may be helpful to make the following observations concerning the Findings of Fact. The "Objections" and the "Proposed Findings" of USG fall naturally in two classes. One of these challenges the *verity*—the truthfulness—of particular Findings suggested by Petitioners. The other aims at the accuracy—meaning incompleteness or insufficiency to present an adequate picture of the subject matter—of a particular Finding. In some instances, both the "verity" and the "accuracy" of a Finding are assailed.

Where the problem has been "verity", the Court has expressed its decision. Where the problem has been "accuracy", it has usually been a matter of the extent to which the details of the subject matter of a Finding should be stated. Therefore, the circumstance that such detail is not contained in a Finding may mean only that the Court deems it unnecessary.

Except as covered by the just preceding paragraph or as included in the Findings of Fact filed, the Findings suggested by all parties are denied. Where the suggested Conclusions of Law are not, in substance, incorporated in those filed by the Court, they are denied. The same situation and the same ruling applies to the Form of Decree.

Judge Cole does not join in the Findings of Fact, the conclusions of Law nor the Decree since he adheres to the view, as expressed in his dissenting opinion (filed July 6, 1954), that this Court is without jurisdiction in the matters presented by Petitioners.

IN THE UNITED STATES DISTRICT COURT
For the District of Columbia.

United States of America, *Plaintiff*,
vs.
United States Gypsum Company, et al., *Defendants.* } No. 8017 Civil.

In re Petitions of National Gypsum Company, et al., *Petitioners*, *vs.* United States Gypsum Company, *Respondent.*

ORDER.
(Filed, Dec. 9, 1954. Harry M. Hull, Clerk.)

The Part I of United States Gypsum Company's Objections and Suggestions with Respect to Petitioners' Proposed Findings of Fact, Conclusions of Law, and Decree, filed September 17, 1954, is denied consideration; the motion of United States Gypsum Company for reconsideration and for rehearing filed October 18, 1954, is denied; denial of each of these matters is without prejudice to United States Gypsum Company to present, after entry of Decree herein, such proper matters as it may then deem advisable.

Dated this 9th day of December, 1954.

/s/ KIMBROUGH STONE,
/s/ EUGENE WORLEY,
/s/ WILLIAM P. COLE, JR.,
Judges.

IN THE UNITED STATES DISTRICT COURT
District of Columbia.

United States of America, *Plaintiff*, *vs.* United States Gypsum Company, et al., *Defendants.*	No. 8017 Civil.

ORDER.
Entered June 30, 1955.

After full consideration of the matters presented by counsel in support of and in opposition to the Motion for a New Trial now pending herein, it is hereby

Adjudged and Decreed that said Motion be and is hereby denied.

/s/ KIMBROUGH STONE,
Circuit Judge,
/s/ EUGENE WORLEY,
District Judge.

I adhere to the views expressed by me in the dissenting opinion heretofore filed herein.

/s/ WILLIAM P. COLE, JR.,
District Judge.

OPINION ON DENYING MOTION FOR NEW TRIAL.
Filed June 30, 1955.

IN THE UNITED STATES DISTRICT COURT
For the District of Columbia.

United States of America, *Plaintiff*,
vs.
United States Gypsum Company, *et al.*, *Defendants*. } No. 8017 Civil.

In re Motion for a New Trial.

MEMORANDUM.

Before the Honorable Kimbrough Stone, United States Circuit Judge and the Honorable Eugene Worley and the Honorable William P. Cole, Jr., Judges of the United States Court of Customs and Patent Appeals, sitting as District Judges.

Per Curiam: The function of a motion for a New Trial is to direct the attention of the Court to matters in the opinion of the trial court, in its findings of fact or in its conclusions of law, which counsel regards as having resulted in an erroneous judgment. Here, counsel for the various parties have ably presented or opposed the present motion.

Although the merits of these petitions by the Government and the other petitioners were exhaustively discussed

and determined, in majority and dissenting opinions, and the settlement of Finding and of the conclusions and the form of judgment had been painstakingly considered by this Court heretofore in the light of extended invited suggestions from counsel, we have not deemed this present motion as merely a necessary formal step in the progress to a final determination by the Supreme Court. Not only have we listened to the excellent oral arguments on this motion but we have carefully read and studied the complete transcript of that hearing as well as all of the matters brought to our attention therein.

Because of these efforts by the Court members and because we still adhere to the views heretofore expressed, it would be but repetition to write a memorandum ruling this motion were it not for one entirely new feature which appears for the first time in this motion. This one matter requires attention and determination. This is the contention by USG that Section 271(d) of Title 35 expressly protects the USG suits against petitioners from any defense of "misuse" on its part of its patents.

The here pertinent language of paragraph "(d)" is that "no patent owner otherwise entitled to relief for infringement * * * of a patent shall be denied relief or deemed guilty of misuse or illegal extention of the patent right by reason of his having * * * (30 sought to enforce his patent rights against infringement * * *."

The vital words for us in this quotation are "otherwise entitled". Patents are classical instruments in conspiracies and combinations to violate the Sherman Act. Can it be that where a designated misuse of patents—here patent license agreements—has been adjudged to be violative of that Act that thereafter the patentee-licensor is absolutely protected by paragraph (d) (3) from the defense of misuse in recovering upon those adjudged unlawful agreements? Can it be possible that the Congress

intended, by paragraph (d) to give to a patentee a protection superior to them and public policy of the Sherman Act?

We have determined that the 1951 Final Decree should be modified to effectuate that Decree fully. Those modifications cover the USG suits definitely. We cannot believe that paragraph (d) was intended to or can properly be construed as nullifying the power of this Court to effectuate the purposes of an anti-trust decree. In short, USG is *not* "otherwise entitled" to come within paragraph (d) (3).

Excerpt from Transcript of the Hearing Before the Court on June 29, 1948, stating views of the Judges on Plaintiff's Motion for Summary Judgment. (R. 11869-11876.)

Chief Justice Stephens: We will take a recess for ten minutes, gentlemen, and reconvene and, if possible, make some announcement as to when we can reach a conclusion upon this motion for summary judgment.

(Recess: 4:27 p. m. to 4:47 p. m.)

Chief Justice Stephens: The Court thinks it need give no further consideration to the motion for summary judgment than it has thus far given. It has heard the arguments and considered them carefully and has read the proffers and various other papers presented and is ready now to reach a decision.

The Court is in division on the motion for summary judgment. Judge Garrett and Judge Jackson have different views from those of myself, and I will ask them each to state briefly their views, and then I will state mine.

Judge Garrett.

Judge Garrett: I have studied the proffer of proof very carefully in the light of the motion for summary judgment and in the light of the argument made in the briefs.

It is my opinion that if everything should be testified to, which is in the proffer of proof, it would not bring any change in the decision of the Supreme Court on the fundamental question involved.

I do not care to go into any detail about the matter. Of course it is very well known my judgment was different originally, but the Supreme Court has spoken, and I am unable to see wherein there is any loophole through which

there may be a conclusion different from that reached by the Supreme Court upon the fundamental question.

Hence, I think the summary judgment should be granted, but I take the precaution to say that the decree following the summary judgment, if it comes or when it does come, must be examined with great care because it should not include matters which were not in issue before the Supreme Court.

That, I think, is all that I have to say.

Chief Justice Stephens: Judge Jackson.

Judge Jackson: Judge Garrett's reasoning parallels mine. I, too, feel that if everything were proved by witnesses on the stand that is stated would be attempted to be proved in the offer of proof, that still there would be no genuine issue of a material fact. There is no sense in going to great length to explain my view. I agree with Judge Garrett. I have read very carefully the briefs, listened with attention and an open mind to the arguments, but I just can't understand how I could come to any other conclusion in view of the decision of the Supreme Court.

Chief Justice Stephens: I have a different view from my colleagues. I think the same issues and genuine issues of fact which were in the case at the outset are still in the case. The issues which arise from paragraphs 44, 45 and 46 of the plaintiff's complaint and of the defendant's answers denying the allegations therein.

I think the opinion of the Supreme Court clearly contemplates further proceedings in this case. It says on page 33 of the slip opinion just above Topic 5:

> "It may be that in the light of this opinion the District Court will conclude that many such findings are no longer significant in reaching its decision. As to others a different result will be required. Enough has been said as to the findings and the evidence, we think, to enable the District Court to pass upon the facts that

may come before it on further proceedings in accord with our present ruling."

That, I think, is a clear indication by the Supreme Court that further proceedings were contemplated by it to be held by the Trial Court.

As to the balance of the opinion of the Supreme Court, while it is difficult to be clear as to just what it means on the topic of legality or illegality of the plurality of licenses, I cannot bring myself to believe in reading the opinion several times carefully that the Supreme Court has intended to rule that a mere plurality of licenses with price-fixing provisions is illegal.

I think, therefore, that the Supreme Court would not warrant our denying the defendants a right to try to prove that that was all there was in the instant case.

I do not see how we can assume to say that the defendants will not be able to prove to the satisfaction of the Court the correctness of the findings of fact which it has already made. Putting this otherwise, I think the whole of the opinion in the Supreme Court must be read in the light of the proposition that the Supreme Court was passing only upon the question whether or not a prima facie case had been made.

I do not think it intended to rule that a complete case had been made. If so, it could itself have ordered a decree. I think the defendants are entitled to try by introducing evidence to convince the triers of fact that the allegations in paragraphs 44, 45 and 46 of the complaint are not true.

I think that to grant summary judgment at the present stage of the case is to deny to the defendants the guarantee of the due process clause of the Constitution of its day in court on the issues raised by its answer.

I do not think the Supreme Court contemplates any such denial.

That states my views briefly.

With respect to a decree, since I am now in the minority, I shall have to defer to the views of my fellows as to this suggestion.

It occurs to me, Mr. Steffen, in view of the victory you have now so fully won, that you might be able to content yourself with a decree which reflects the views of my colleagues on the subject of conspiracy to execute and take patent licenses for the purpose of organizing the industry and stabilizing prices, and on the subject of monopoly, and that you might not need to trouble yourselves or the Court with the difficulties about jobbers and high prices and arbitrary prices of the patented board or with respect to unpatented materials or with respect to standardization or with respect to manufacturing distributors.

I should think you might be able to waive those points, if you get a decree, which you will now get, holding the entire licensing system illegal.

Now, of course, we can't compel you to do that, but I suggest that as a matter for your consideration; and if you come to a different conclusion, then I think my colleagues will have to meet the issue of how they are going to draw a decree on those five topics which are the subject of paragraph 45 of the complaint without a hearing granted to the defendants on their denials of the charges on those subjects.

Mr. Steffen: If Your Honors please, we will be glad to have possibly 90 days in which to study over the matter of the findings and also to take up in some measure the nature of the proposed decree. We do not want to hurry in this, and we would not like to be pressed to agree now to any particular findings, but after studying it thoroughly, we will then, as in the last case, submit—

Chief Justice Stephens: I wouldn't suggest a present

commitment, of course. I do have this to suggest: that while I disagree with my colleagues in their views, I think one of the practical results of their views, which might be desirable, is that if the defendants see fit, as I assume they will, to appeal from this ruling, we then may get a speedy determination by the Supreme Court as to what this opinion means on the subject of plurality of licenses and the legality thereof.

It would seem to me that it would be to the interest of the Government, which wants to stop what it claims to be an illegal combination, to get its decree in here as soon as possible so that the defendants can proceed to appeal as soon as possible.

So I would suggest that you take as little time as is reasonably necessary for preparing a proposed decree.

Judge Jackson: Be sure that time is sufficiently long, though, so that some of us Judges can get out of this climate. I am not going to work this summer if I can help it. I am sick of it.

Mr. Steffen: We want at least 90 days.

Chief Justice Stephens: Is there any objection to 90 days for the preparation of the proposed decree, any objection by the defendants?

Mr. Steffen: Mr. Knuff says he would prefer 120 days. I might say this: that I am in charge of a case in New York against the Investment Bankers. I come here occasionally, and Mr. Knuff has been carrying the load and it will be largely his load over the summer.

Judge Jackson: Let us not fix a definite date, then, but get it out as conveniently as you can without killing yourselves, but have it accurate.

Mr. Steffen: That is right.

Chief Justice Stephens: It seems to me it would be better to set some time limit. If the defendants do not object,

let's make it 120 days. Any objections by the defendants to 120 days?

Mr. Bromley: No, Your Honor.

Chief Justice Stephens: Make it 120 days from today to present the proposed decree to the Court and to adverse counsel.

Mr. Steffen: That is proposed findings of fact.

Chief Justice Stephens: Proposed findings of fact, decree, or any other papers you feel you are obliged to have signed by the majority of the Court under this motion for summary judgment and the granting thereof.

United States v. *United States Gypsum Company, et al.* Civil Action No. 8017, District Court of the United States for the District of Columbia.

OPINION BY STEPHENS, J., ON MOTION FOR SUMMARY JUDGMENT

STEPHENS, *J.*: I think that the entry of a summary judgment against the defendants is not warranted. The case was before the Supreme Court for review of the correctness of the trial court's mid-trial dismissal, under Rule 41 (b), Federal Rules of Civil Procedure, of the Government's complaint. The dismissal was after the Government had completed presentation of the evidence which it relied upon to sustain the charges in its complaint, but before any evidence had been presented by the defendants. As I read its opinion the Supreme Court determined that the Government's evidence established *prima facie* the violations of the Sherman Act, or some of them, charged in the Government's complaint. But these charges—outlined in paragraphs 44-46 (a) inclusive, and detailed in paragraphs 47-123 inclusive, of the complaint are denied by the defendants' answers.[2] Hence there remain in the case genuine

2. The charges reduce themselves in essence to the following: (1) That the license contracts entered into between the defendant USG, as licensor, and the other defendants, as licensees, are themselves illegal as in restraint of trade in view of the nature of the patents upon which the contracts are based, in view of the fact that USG and the plurality of defendant licensees manufacture all of the gypsum board in the "Eastern area," and in view of the terms and conditions of the contracts, including those providing for the establishment of minimum prices on patented gypsum board to be made and sold by the defendants. (2) That the license contracts, even if valid on their face, were not entered into as bona fide license agreements, reasonably designed to secure to USG the pecuniary reward for valid patent monopolies, but were executed by the defendants merely to give color of legality to a combination to restrain trade, by control of the prices and terms and conditions of sale of gypsum board, plaster, and mis-

issues of material fact. This forbids the entry of a summary judgment for under Rule 56(c), Federal Rules of Civil Procedure, such a judgment can be rendered only "if the pleadings, depositions, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law. . . ." And I think that in setting aside the trial court's findings of fact and in saying that "By the record *now presented*" violation of the Sherman Act is clear and in saying that, as the order of dismissal came at the end of the Government's presentation on defendants' motion to dismiss under Rule 41 (b), "the order is reversed and the case remanded *for further proceedings in conformity with this opinion,*"[3] the Supreme Court meant that the defendants' evidence should be heard and the case disposed of by the trial court upon the merits on the issues raised by the complaint and the answers and upon findings of fact and conclusions of law to be made anew after a weighing of all of the evidence, *i.e.*, that to be presented by the defendants as well as that which had been introduced by the Government. It is in my view not to be thought that the Supreme Court contemplated denial to the defendants of their day in court upon the issues raised by the pleadings. But that is the effect of the summary judgment; the

cellaneous gypsum products throughout the gypsum industry. (3) That the defendants' operations were carried beyond the proper limits of a patent monopoly and licensing thereunder by raising and fixing at arbitrary and non-competitive levels the price of gypsum board made and sold by the defendants, by improper standardization of gypsum board and its method of production, by raising, maintaining and stabilizing the level of prices of unpatented materials—plaster and miscellaneous gypsum products—by effectuating improper restriction upon distribution of gypsum board, plaster and miscellaneous gypsum products, and by fixing the prices at which manufacturing distributors resold gypsum board. (4) That the patents, or some of them, upon which such license agreements were purportedly based are invalid.

3. *United States* v. *United States Gypsum Co.*, 333 U. S. 364, 401, 402 (1948); italics supplied.

defendants have made offers of proof but they are not to be permitted to present evidence. It is true that it is without dispute in the case that patent licenses with price fixing limitations were executed by the defendants, that these licenses were, in the large, adhered to by each defendant with knowledge of the adherence of others, and that they were industry wide; and these undisputed facts were adverted to by the Supreme Court in the course of its opinion ruling that a *prima facie* case of conspiracy to violate the Sherman Act had been made out by the Government. But I do not read the opinion of the Court as ruling that such a plurality of patent licenses is, without more, conclusive, rather than merely *prima facie,* evidence of a violation of the Sherman Act. Had the Court regarded such a plurality of licenses, without more, as conclusive evidence of a violation of the Act it would I think have overruled *United States* v. *General Electric Company,* 272 U. S. 476 (1926). This it did not do either in its decision in the instant case or in *United States* v. *Line Material Co.,* 333 U. S. 287 (1948). In the latter case the Sherman Act violation found by the Supreme Court was laid by it to the cross-licensing of the Lemmon and Schultz patents, not to the admitted plurality of licenses with price fixing provisions entered into, as the Court said, as the result of arm's length bargaining although with knowledge on the part of each licensee of price provisions in the licenses of others.

I think therefore that the defendants should be permitted to present their offered proof on the issues of fact raised by their answers to the Government's complaint and that the court should then hear argument by counsel for the parties and should, after weighing the evidence of both the Government and the defendants, make findings of fact and conclusions of law anew and then render judgment according thereto.

/s/ HAROLD M. STEPHENS, *J.*

November 7, 1949.

APPENDIX B.

FEDERAL RULES OF CIVIL PROCEDURE.

RULE 8.

GENERAL RULES OF PLEADING.

a. Claims for Relief. A pleading which sets forth a claim for relief, whether an original claim, counterclaim, cross-claim, or third-party claim, shall contain (1) a short and plain statement of the grounds upon which the court's jurisdiction depends, unless the court already has jurisdiction and the claim needs no new grounds of jurisdiction to support it, (2) a short and plain statement of the claim showing that the pleader is entitled to relief, and (3) a demand for judgment for the relief to which he deems himself entitled. Relief in the alternative or of several different types may be demanded.

b. Defenses; Form of Denials. * * *

c. Affirmative Defenses. * * *

d. Effect of Failure to Deny. * * *

e. Pleading to be Concise and Direct; Consistency.

(1) Each averment of a pleading shall be simple, concise and direct. No technical forms of pleading or motions are required.

(2) A party may set forth two or more statements of a claim or defense alternatively or hypothetically, either in one count or defense or in separate counts or defenses. When two or more statements are made in the alternative and one of them if made independently would be sufficient, the pleading is not made insufficient by the insufficiency of one or more of the alternative statements. A party may also state as many separate claims or defenses as he has regardless of consistency and whether based on legal or on

equitable grounds or on both. All statements shall be made subject to the obligations set forth in Rule 11.

f. Construction of Pleadings. All pleadings shall be so construed as to do substantial justice.

TITLE 35 U. S. C.

Sec. 271. Infringement of patent.

(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement. (July 19, 1952, c. 950, Sec. 1, 66 Stat. 811.)

Title 15, U. S. C., Sections 1, 2 and 3. (Sherman Act).

Section 1. Trusts, etc., in restraint of trade illegal; exception of resale price agreements; penalty.

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal: *Provided,* • • •

Section 2. Monopolizing trade a misdemeanor; penalty.

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding $5,000, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court. (July 2, 1890, ch. 647, Sec. 2, 26 Stat. 209.)

Section 3. Trusts in Territories or District of Columbia illegal; combination a misdemeanor.

Every contract, combination in form of trust or otherwise, or conspiracy, in restraint of trade or commerce in any Territory of the United States or of the District of Columbia, or in restraint of trade or commerce between any such Territory and another, or between any such Territory or Territories and any State or States or the District of Columbia, or with foreign nations, or between the District of Columbia and any State or States or foreign nations, is declared illegal. Every person who shall make any such contract or engage in any such combination or conspiracy, shall be deemed guilty of a misdemeanor, and,

on conviction thereof, shall be punished by fine not exceeding $5,000, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court. (July 2, 1890, ch. 647, Sec. 3, 26 Stat. 209.)

FILED
NOV 22 1955
HAROLD B. WILLEY, C

IN THE

Supreme Court of the United States

OCTOBER TERM, 1955

No. ~~485~~ //

UNITED STATES GYPSUM COMPANY,

Appellant,

—against—

UNITED STATES OF AMERICA; NATIONAL GYPSUM COMPANY; CERTAIN-TEED PRODUCTS CORPORATION; EBSARY GYPSUM COMPANY, INC.; NEWARK PLASTER COMPANY, *et al.*,

Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

MOTION TO AFFIRM MADE BY APPELLEE NATIONAL GYPSUM COMPANY, PETITIONER IN THE COURT BELOW

ELMER FINCK
804 Liberty Bank Building
Buffalo 2, New York

SAMUEL I. ROSENMAN
SEYMOUR D. LEWIS
MALCOLM A. HOFFMANN
575 Madison Avenue
New York 22, New York

SEYMOUR KRIEGER
777 Fourteenth Street, N.W.
Washington 5, D. C.

Attorneys for National Gypsum Company

INDEX

PAGE

Statement 1

Argument:

1. The injunction against USG's prosecution of the Iowa suit was necessary to protect the integrity of the District Court's decree, and invoked a well-established judicial remedy which fell within the District Court's discretionary powers and ought not be reviewed 8

2. The questions presented in appellant's jurisdictional statement are so unsubstantial as not to warrant further consideration by this Court 16

TABLE OF AUTHORITIES:

Cases:

Apex Electrical Mfg. Co. v. *Altorfer Bros. Co.*, 130 F. Supp. 152 (S. D. Ill. 1955) 10

Associated Press v. *United States*, 326 U. S. 1 (1945) ..11, 27

B. B. Chemical Co. v. *Ellis*, 314 U. S. 495 (1942) 22, 26

Bellavance v. *Plastic-Craft Novelty Co.*, 30 F. Supp. 37 (D. Mass. 1939) 19

Besser Mfg. Co. v. *United States*, 343 U. S. 444 (1952) 12, 13, 27

Campbell v. *Mueller*, 159 F. 2d 803 (6th Cir. 1947).... 14

Carbice Corp. v. *American Patent Development Corp.*, 283 U. S. 27 (1931) 21

PAGE

Chrysler Corp. v. *United States*, 316 U. S. 556 (1942) 11, 13, 15, 27

Crosley Corp. v. *Hazeltine Corp.*, 122 F. 2d 925 (3d Cir. 1941), *cert. denied*, 315 U. S. 813 (1942) 9

Eclipse Bicycle Co. v. *Farrow*, 199 U. S. 581 (1905) 21

Edward Katzinger Co. v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394 (1947) 24, 25

Ethyl Gasoline Corp. v. *United States*, 309 U. S. 436 .. 24

Faulkner v. *Gibbs*, 199 F. 2d 635 (9th Cir. 1952) 21

Gayler v. *Wilder*, 51 U. S. 476 (1850) 19

Georgia Power Co., In re, 89 F. 2d 218 (5th Cir. 1937), *cert. denied*, 302 U. S. 692 (1937) 9

Hartford-Empire Co. v. *United States*, 323 U. S. 386 (1947) 7, 9, 16, 17, 18, 23

International Salt Co. v. *United States*, 332 U. S. 392 (1947) 12, 27

Kerotest Mfg. Co. v. *C-O-Two Fire Equipment Co.*, 342 U. S. 180 (1952) 9, 15

Kobe, Inc. v. *Dempsey Pump Co.*, 97 F. Supp. 342 (N. D., Okla. 1951), *aff'd*, 198 F. 2d 416 (10th Cir. 1952), *cert. denied*, 344 U. S. 837 (1952) 10

Layne & Bowler Corp. v. *Western Well Works, Inc.*, 261 U. S. 387 (1923) 15

Lincoln Engineering Co. v. *Stewart-Warner Corp.*, 91 F. 2d 757 (7th Cir. 1937), *rvsd. on other gds.* 303 U. S. 545 (1938) 21

MacGregor v. *Westinghouse Elec. & Mfg. Co.*, 329 U. S. 402 (1947) 24, 25

PAGE

McCullough v. *Kammerer Corp.*, 166 F. 2d 759 (9th Cir. 1948), *cert. denied*, 335 U. S. 813 (1948) 14
Mercoid Corp. v. *Mid-Continent Investment Co.*, 320 U. S. 661 (1944) 22
Morton Salt Co. v. *Suppinger Co.*, 314 U. S. 488 (1942) 14
Murdock v. *Memphis*, 20 Wall. (87 U. S.) 590 (1875) 15

National Lockwasher Co. v. *George K. Garrett Co.*, 137 F. 2d 255 (3d Cir. 1943) 14

Paramount Publix Corp., In re, 8 F. Supp. 644 (S. D. N. Y. 1934) 19
Park-In Theatres Inc. v. *Paramount-Richards Theatres Inc.*, 81 F. Supp. 466 (D. Del. 1948), *aff'd*, 185 F. 2d 407 (3d Cir. 1950), *cert. denied*, 341 U. S. 950 (1951) 26

Ryan Distributing Corp. v. *Coley*, 51 F. Supp. 377 (E. D. Pa. 1943), *aff'd* 147 F. 2d 138 (3d Cir. 1945), *cert. denied*, 325 U. S. 859 (1945) 19

Saw-Lowell Shops v. *Reynolds*, 141 F. 2d 587 (4th Cir. 1944) 21
Sbicca-Del Mac, Inc. v. *Milius Shoe Co.*, 145 F. 2d 389 (8th Cir. 1944) 21
Schillinger v. *United States*, 155 U. S. 163 (1894) 19
Stainback v. *Mo Hock Ke Lok Po Corp.*, 336 U. S. 368 (1949) 15
Steelman v. *All Continent Corp.*, 301 U. S. 278 (1937) 9

United States v. *Crescent Amusement Co.*, 323 U. S. 173 (1944) 11, 12, 27
United States v. *Hartford-Empire Co.*, 46 F. Supp. 541 (D. D. C. 1942) 17
United States v. *National Lead Co.*, 63 F. Supp. 513 (S. D. N. Y. 1945) 9

PAGE

United States v. *National Lead Co.*, 332 U. S. 319 (1947) 9, 11, 12, 17, 27
United States v. *Rimer*, 220 U. S. 547 (1911) 15
United States v. *Swift & Co.*, 386 U. S. 106 (1932) 11, 13
United States v. *U. S. Gypsum Co.*, 333 U. S. 364 (1948) 3, 22, 23
United States v. *U. S. Gypsum Co.*, 339 U. S. 959 (1950) 3, 23, 25
United States v. *U. S. Gypsum Co.*, 339 U. S. 960 (1950) 3, 23, 25
United States v. *U. S. Gypsum Co.*, 340 U. S. 76 (1950) 3, 4, 8, 12, 14, 15, 25-26, 27
United States v. *Vehicular Parking Ltd.*, 56 F. Supp. 297 (D. Del. 1944); 61 F. Supp. 656 (D. Del. 1945) 10, 26

Westinghouse Electric Corp. v. *Bulldog Electric Products Co.*, 179 F. 2d 139 (4th Cir. 1950) 14
Wilkerson v. *McCarthy*, 336 U. S. 53 (1949) 15

Federal Statutes:

Expediting Act

Sec. 1, 15 U. S. C. §28 1
Sec. 2, 15 U. S. C. §29 1

Sherman Act:

Section 1 3
Section 2 3
Section 3 3

Title 28, U. S. C.

§1253 1
§2101 (b) 1

PAGE

Title 35, U. S. C.

§271 (d) 16, 20, 21

Miscellaneous:

Federal Rules of Civil Procedure
Rule 8 ..... 16, 18, 19

Rules of the Supreme Court, Rule 16 1

Thoreau, Henry David—*Journal* (November, 1850) 25

IN THE

Supreme Court of the United States

OCTOBER TERM, 1955

No. 485

UNITED STATES GYPSUM COMPANY,

Appellant,

—against—

UNITED STATES OF AMERICA; NATIONAL GYPSUM COMPANY; CERTAIN-TEED PRODUCTS CORPORATION; EBSARY GYPSUM COMPANY, INC.; NEWARK PLASTER COMPANY, *et al.*,

Appellees.

MOTION TO AFFIRM

Appellee, National Gypsum Company, a petitioner below, pursuant to Rule 16 of the Revised Rules of the Supreme Court of the United States, moves that the decree of the District Court be affirmed on the ground that the questions presented are so unsubstantial as not to warrant further argument.

Statement

This is a direct appeal taken under 28 U. S. C., Sections 1253 and 2101(b),[1] from the decree entered on December 9, 1954 by a District Court of three judges, specially constituted pursuant to Section 1 of the Expediting Act, 15 U. S. C. §28. In its decree of December 9, 1954 the District Court modified its final decree of May 15, 1951 acting on five petitions including that of National Gypsum Company, a co-defendant with United States Gypsum Company (here-

1 Appellee believes that these statutes are not properly invoked and that the appeal should be founded on Section 2 of the Expediting Act, 15 U. S. C. § 29.

inafter referred to as "USG" or "appellant") and others in this Government antitrust suit.[2]

In its decree of December 9, 1954 the Court, by Judges Kimbrough Stone and Eugene Worley, after determining that it had jurisdiction of the subject matter and of the parties,[3] modified the final decree of May 15, 1951 by adding to Article V thereof[4] a paragraph reading as follows:

> "Defendant United States Gypsum Company is hereby ordered and directed to discontinue and to dismiss with prejudice to United States Gypsum Company, its pending actions as follows: against National Gypsum Company, in the United States District Court for the Northern District of Iowa; against Certain-Teed Products Corporation, in the same District Court; against Newark Plaster Company, in the United States District Court for the District of New Jersey; and against Ebsary Gypsum Company, Inc., in the United States District Court for the Southern District of New York."

---

2 Other defendants in the Government action, described by the appellant as the "corporate appellees," Certain-teed Products Corporation, Ebsary Gypsum Company and Newark Plaster Company filed similar petitions for orders, modifications or directions for enforcement, construction or carrying out of the final decree of May 15, 1951, as did the plaintiff, the United States of America.

3 The Court issued an opinion on July 6, 1954 from which Judge William P. Cole, Jr. dissented primarily on the ground that "the United States can be the sole spokesman for the public interest." Appendix to Appellant's Jurisdictional Statement, pp. 13-57, 58, 59. The Jurisdictional Statement is hereinafter designated as "J. S.", the Appendix to the Jurisdictional Statement as "J. S. A."

4 Article V enjoined defendants from (a) fixing prices for gypsum products by patent license agreements or other action, (b) agreeing upon a basis for selection or classification of purchasers of gypsum products, (c) refraining to sell gypsum prod-

The proceedings which resulted in the final decree of May 15, 1951 were instituted by the United States in 1940 and have several times been before this Court, 333 U. S. 364 (First Decision, March 8, 1948), 333 U. S. 869 (rehearing den., April 5, 1948), 339 U. S. 959 (USG's appeal from District Court's decree of November 7, 1949, denied, May 29, 1950), 339 U. S. 960 (on Government's appeal to enlarge relief, Second Decision, probable jurisdiction noted, and injunction granted, May 29, 1950), 340 U. S. 76 (Third Decision, November 27, 1950). They resulted in findings that USG, patent licensor, and five other corporations, including National Gypsum Company, licensees, and six individuals, conspired to fix prices on patented gypsum board and unpatented gypsum products in violation of Sections 1, 2 and 3 of the Sherman Act, this Court noting that USG via license agreements maintained rigid control over the price and terms of sale of virtually all gypsum board (333 U. S. at 371) and controlled the sale of unpatented gypsum board and plaster (333 U. S. at 397) and acted in concert to eliminate an important class of jobbers (333 U. S. at 398). Pursuant to the mandate of this Court the District Court for the District of Columbia entered its final decree of May 15, 1951 where, *inter alia*, it was adjudged that each of USG's patent license agreements with its co-defendants is unlawful under the antitrust laws of the United States and illegal, null and void (Article IV, J. S. A. 1, 6).

Immediately following this Court's first decision of March 8, 1948 voiding the patent license agreements (333 U. S. 364), National Gypsum discontinued the payment of

---

ucts to any purchasers or class of purchasers, (d) agreeing upon or quoting gypsum products pursuant to delivered price plans resulting in identical prices, and (e) policing, investigating, checking or inquiring into prices, quantities, terms or conditions of any offer to sell or sale of gypsum products (J. S. A. 7).

royalties to USG. It withheld payment of royalties until after the final decree of May 15, 1951 when, for the first time, National Gypsum Company was able to obtain a new patent license agreement free of illegal restraints (J. S. A. 65, 71).[5]

The third decision of this Court on November 27, 1950 (340 U. S. 76) which occasioned the District Court's final decree of May 15, 1951, resulted from the Government's appeal from the narrow scope of the first District Court decree of November 7, 1949. In that decision this Court admonished the District Court that it should "cure the ill effects of the illegal conduct", 340 U. S. at 88, and that, "the conspirators should, so far as practicable, be denied future benefits from their forbidden conduct", 340 U. S. at 89. Consequently, the decree of May 15, 1951 expanded the relief earlier granted. It provided for compulsory licensing by USG at reasonable non-discriminatory royalty rates (Article VI), contained the injunction described in note 4 above (Article V), and enumerated certain patent licensing agreements including the agreement between USG and National Gypsum Company as "unlawful under the anti-trust laws . . . illegal, null and void." (Article IV, J. S. A. 6.)

Notwithstanding these decretal provisions, on January 28, 1953 USG commenced an action in the United States District Court for the Northern District of Iowa against National Gypsum Company claiming royalties unpaid under the voided license agreement during the period from the Supreme Court's first decision of March 8, 1948 to the date of the final decree, in the amount of $1,600,000.[6]

---

5 Supporting references here are to the Findings of Fact in the present proceedings entered by the Court on December 9, 1954 (J. S. A. 65-75).

6 In January, February or March, 1953 USG filed separate similar actions against three of the other defendant-licensees who

The suit was in five counts. Counts I and II expressly pleaded National Gypsum Company's liability for royalties in the amount of $1,600,000 on the license agreement which the decree had made a nullity. Count III also alleged National Gypsum's liability for $1,600,000 at the royalty rate fixed by the illegal agreement and is described in the Findings of Fact of the District Court as a "common law action of *indebitatus assumpsit* based on a pleaded express contract." (J. S. A. 73.) That contract and the relief sought are so stated as to bring about the identical recovery that would have been realized had the count been for recovery upon the royalties provided for in the illegal agreement (*Id.*). Count IV, also in the amount of $1,600,000 representing the same royalty, was found by the District Court to be a *quantum meruit* count covering the use of patents (*Id.*). Count V charged infringement by National Gypsum Company of a patent under which licensing rights had been granted to it by the voided agreement and damages were fixed at $1,600,000, again by reference to the royalty rate found in the voided agreement (J. S. A. 53).

This proceeding was stayed by the Iowa Court upon the application of National Gypsum Company (J. S. A. 18) which thereafter petitioned the District Court for the District of Columbia to enjoin USG from continuing the Iowa action and from asserting any claim against National for payment for use of USG's misused patents for any period of time prior to May 15, 1951, the date of the final decree in the antitrust proceeding. Other licensees filed similar

---

had withheld payment of royalties: against Certain-teed Products in the Northern District of Iowa; against Newark Plaster Co. in the District of New Jersey; against the Ebsary Gypsum Co. in the Southern District of New York. These suits were all based on the same theory of cause of action and were all in substantially similar form, although the time period of the claims for non-payment of royalties in the Newark and Ebsary cases extended until the dates of filing of the complaints (J. S. A. 17).

petitions (See note 2, *supra*), and the United States petitioned the Court to enjoin USG from asserting any claim or suit "in whole or in part on any of the license agreements adjudged illegal, null and void by the final decree of this Court entered on May 15, 1951 or on any provision thereof." (J. S. A. 17-18.)[7]

On these facts the District Court for the District of Columbia concluded[8] that USG should be enjoined from further prosecuting the first two counts of its suits since in asserting them the defendant "clearly violated the express provisions of Article IV" (J. S. A. 77)—the provision of the final decree which declared the patent license agreements to be null and void. The District Court further concluded that since Article IV of the final decree did not expressly or impliedly cover the counts sounding in *indebitatus assumpsit*, infringement, or *quantum meruit*, it would modify the decree in order to enjoin prosecution of such counts (J. S. A. 77-78). The Court pointed out that "the purpose and permissible function of an order for modification of an antitrust decree is to cover something within the broad purposes of the decree but which, for some proper reason, was not included in the existing decree. Almost always such modifications are concerned with remedies. Usually they concern situations which were either overlooked at the time the decree was entered or which have arisen or developed after the decree." (*Id.*) It noticed that it had expressly reserved jurisdiction in Article X of the final decree "to take further action, if experience thereafter should make such necessary or advisable, fully

---

7 On September 9, 1953 USG filed its answer to all the petitions (J. S. 2).

8 On December 9, 1954 the District Court entered its Conclusions of Law to which reference here is made (J. S. A. 75-79).

to effectuate the purposes of destroying the monopoly and conspiracy and denying the fruits thereof." (*Id.*) The Court also concluded that in addition to its expressly reserved power in the final decree, as a Court of Equity it had inherent power to modify its decrees "so as to make them fully effective, provided, however, that the decree may not be enlarged beyond its intended proper scope." (J. S. A. 78.)

The District Court further concluded that USG had not at any time prior to May 15, 1951 purged itself of its patent misuse and consequently "should be enjoined from further prosecution of all Counts." (*Id.*) It stated that to "allow prosecution of these suits would weaken the effectiveness of the Final Decree" and "*because of the practical and legal situation in this case,* and also the teaching in the *Hartford-Empire* case" enjoined their further prosecution by USG (Emphasis supplied; J. S. A. 78-79).

On June 30, 1955 the District Court denied a motion for a new trial made by USG (J. S. A. 91, 92).

As noted above (pp. 3-4, *supra*), National Gypsum Company accepted a new license agreement from USG immediately after the filing of the decree of May 15, 1951 and the Iowa action directed to National Gypsum Company's non-payment of royalties is for a period ending May 15, 1951. Consequently, issues relating to purge or dissipation of the illegal restraints subsequent to that time are not pertinent to this motion which can only properly relate to that part of the Court's order which enjoined USG's action against National Gypsum Company in the Iowa District Court. Although we believe that the District Court's decree of December 9, 1954 is proper in its entirety, the argument which follows is addressed only to the issues raised by National Gypsum Company's petition.

ARGUMENT

1.

The injunction against USG's prosecution of the Iowa suit was necessary to protect the integrity of the District Court's decree, and invoked a well-established judicial remedy which fell within the District Court's discretionary powers and ought not be reviewed.

The decision of the District Court is plainly correct. That Court had been instructed by this to grant relief which will "so far as practicable cure the ill effects of the illegal conduct . . ." 340 U. S. at pp. 88-89. It was confronted with an unrepentant flouting of the decree of May 15, 1951 and a bold attempt to subvert its effectiveness. On the petitions of all the interested parties the Court took the only possible measure which might preserve the dignity and integrity of its final decree. It did so only after elaborate briefing and argument on the issues,[9] including a hearing on a motion for a new trial.[10] To protect its decree

---

9 Briefs were filed by each of the petitioners, USG and the United States, and reply briefs were filed by the petitioners. Oral arguments on January 12 and January 13, 1954 comprised 253 pages of transcript (USG Notice of Appeal, p. 10). The majority opinion of July 6, 1954 contained 38 pages and considered in detail all matters presented by the parties. In connection with the motion for a new trial made by USG briefs were filed by all parties, and a full day's oral argument was heard by the Court on April 6, 1955, filling 178 pages of transcript (USG Notice of Appeal, p. 12).

10 In denying the motion, the District Court said:

> "Although the merits of these petitions by the Government and the other petitioners were exhaustively discussed and determined, in majority and dissenting opinions, and the settlement of Findings and of the Conclusions and the form of judgment had been painstakingly considered by this Court heretofore in the light of extended invited suggestions

and implement its general purpose it employed the traditional and well established procedure of enjoining a multiplicity of actions in other Courts which would derogate from its continuing powers to supervise the operation of its own decree. *Kerotest Manufacturing Co.* v. *C-O-Two Fire Equipment Co.*, 342 U. S. 180, 183-184 (1952); *Steelman* v. *All Continent Corp.*, 301 U. S. 278, 289-291 (1937); *Crosley Corp.* v. *Hazeltine Corp.*, 122 F. 2d 925, 929-930 (3d Cir. 1941), *cert. denied*, 315 U. S. 813 (1942); *In re Georgia Power Co.*, 89 F. 2d 218, 221 (5th Cir. 1937), *cert. denied*, 302 U. S. 692 (1937).

The District Court's injunction against continuance of the Iowa action applied a judicial remedy now well established in patent antitrust cases. Landmark cases in which the patentee has been enjoined from enforcing patent rights misused under the antitrust laws are *Hartford-Empire Co.* v. *United States*, 323 U. S. 386, 418-419 (1947) and *United States* v. *National Lead Co.*, 63 F. Supp. 513, 534 (S. D. N. Y. 1945), *aff'd*, 332 U. S. 319 (1947). In both the *Hartford* and *National Lead* cases defendant-patentees were enjoined from bringing any infringement suits for royalties under their misused patents for any period of time prior to the entry of the decree. This Court has noted that the violations of law in the *National Lead* case "were as offensive to the prohibitions of the Sherman Act as those proven in the present case", 340 U. S. at 93-94.

Recent lower Court decisions have applied the teaching of these cases so that it is now often provided in litigated

---

from counsel, we have not deemed this present motion as merely a necessary formal step in the progress to a final determination by the Supreme Court. Not only have we listened to the excellent oral arguments on this motion but we have carefully read and studied the complete transcript of that hearing as well as all of the matters brought to our attention therein." (J. S. A. 92-93).

antitrust decrees that patentees misusing their patents under the antitrust laws are enjoined from asserting infringement or other rights under their patents until the effects of their violations can be shown to have been fully dissipated. *Kobe, Inc.* v. *Dempsey Pump Co.*, 97 F. Supp. 342 (N. D. Okla. 1951), *aff'd* 198 F. 2d 416 (10th Cir. 1952), *cert. denied* 344 U. S. 837 (1952); *Apex Electrical Mfg. Co.* v. *Altorfer Bros. Co.* (130 F. Supp. 152 (S. D. Ill. 1955)); *United States* v. *Vehicular Parking Ltd.*, 56 F. Supp. 297 (D. Del. 1944), 61 F. Supp. 656 (D. Del. 1945).[11]

The action of the District Court fell well within the scope of its discretionary powers to implement its decree and ought not to be reviewed here. Litigation like everything else must have an end, and this case has already been before the Court on three occasions.[12] The District Court

---

11 The same relief is almost uniformly included in consent decrees settling patent misuse cases. During the period from 1946 to December 1954, it is found in 40 of 58 such cases. CCH Trade Cases (1946-1947) Par. 57,492, p. 58,295; Par. 57,444, p. 58,058; Par. 57,603, p. 58,656; Par. 57,579, p. 58,587; Par. 57,645, p. 58,783; Par. 57,458, p. 58,122; Par. 57,542, p. 58,452; Par. 57,456, p. 58,115; Par. 57,621, p. 58,710; Par. 57,433, p. 58,036; CCH Trade Cases (1948-1949) Par. 62,230, p. 62,341; Par. 62,284, p. 62,649; Par. 62,349, p. 62,905; Par. 62,223, p. 62,272; Par. 62,255, p. 62,519; Par. 62,338, p. 62,879; Par. 62,268, p. 62,606; Par. 62,233, pp. 62,358, 62,363; Par. 62,518, p. 63,534; Par. 62,323, p. 62,809; Par. 62,442, p. 63,270; Par. 62,334, p. 62,860; Par. 62,236, p. 62,375; Par. 62,330, p. 62,844; Par. 62,356, p. 62,933; CCH Trade Cases (1950-1951) Par. 62,533, p. 63,575; Par. 62,586, p. 63,727; Par. 62,867, p. 64,570; Par. 62,914, p. 64,783; CCH Trade Cases (1952) Par. 67,248, p. 67,385; Par. 67,233, p. 67,343; Par. 67,403, p. 68,060; CCH Trade Cases (1952-1953) Par. 67,583, p. 68,769; Par. 67,501, p. 68,465; Par. 67,595, p. 68,859; CCH Trade Cases (1954) Par. 67,714, p. 69,299; Par. 67,733, p. 69,361; Par. 67,771, p. 69,468; Par. 67,828, p. 69,681; Par. 67,829, p. 69,691.

12 USG has included in its record on appeal almost the entire record of all the prior proceedings in this matter as if in an attempt

has a broad power to modify and reshape its injunction. In *Chrysler Corp.* v. *United States,* 316 U. S. 556 (1942) Mr. Justice Byrnes stated at page 562:

> "It is clear that under paragraph 14 of the original decree the District Court had jurisdiction to modify it. The question is whether the change in date in paragraph 12 amounted to an abuse of this power to modify. We think that the test to be applied in answering this question is whether the change served to effectuate or to thwart the basic purpose of the original consent decree. *United States* v. *Swift & Co.,* 386 U. S. 106."

In *United States* v. *Crescent Amusement Co.,* 323 U. S. 173 (1944) Mr. Justice Douglas said at page 185:

> "where the findings of violations are sustained, we will not direct a recasting of the decree except on a showing of abuse of discretion."

In *Associated Press* v. *United States,* 326 U. S. 1 (1945) Mr. Justice Black, writing for the Court, at page 22, said:

> "The fashioning of a decree in an antitrust case in such way as to prevent future violations and eradicate existing evils, is a matter which rests largely in the discretion of the court."

In *United States* v. *National Lead Co.,* 332 U. S. 319 (1947) Mr. Justice Burton said at pages 334-335:

> "In our opinion, the provisions of this decree, to a large extent, are matters lying within the discretion of the District Court as a court of equity whose duty it was

---

to reargue once again issues long since put to rest. (Notice of Appeal, pp. 2-9.)

to make the remedy as effective as possible. . . . We believe that the District Court has not exceeded its discretion in the provisions of this decree. . . ."

In *International Salt Co.* v. *United States,* 332 U. S. 392 (1947) Mr. Justice Jackson said at pages 400-401:

"The framing of decrees should take place in the District rather than in Appellate Courts. They are invested with large discretion to model their judgments to fit the exigencies of the particular case."

The most recent pronouncement of this Court on the scope of review of antitrust decrees is found in *Besser Mfg. Co.* v. *United States,* 343 U. S. 444 (1952). In that case Mr. Justice Jackson writing for the Court said at page 449:

"In framing relief in anti-trust cases, a range of discretion rests with the trial judge. *United States* v. *National Lead Co., supra,* at 338; *International Salt Co.* v. *United States, supra,* at 400-401, 405; *United States* v. *Crescent Amusement Co.,* 323 U. S. 173, 185. We can see no abuse of discretion here."

It is noteworthy that the language of this Court in the *Gypsum* case in 1950, 340 U. S. 76, at p. 89, upon which USG relies (J. S. 25), "Notwithstanding our adherence to trial court responsibility in the molding of a decree as the wisest practice and the most productive of good results, we have never treated that power as one of discretion, subject only to reversal for gross abuse" and which can be interpreted to delimit the trial court's discretionary power in antitrust decrees[13] is not referred to in the sub-

13 In *Gypsum* this Court, however, also said:

"The determination of the scope of the decree to accomplish its purpose is peculiarly the responsibility of the trial court.

sequent *Besser* decision which reasserts the predominant thinking of this Court. Certainly this Court has left open sufficient area for the operation of a trial court's discretion to encompass what was done here. There is no need on the modification sought to be reviewed to probe for its perimeter and to define the maximum of the trial court's powers. We shall show below that the modification met this Court's test of proper exercise of discretion which is "whether the change served to effectuate . . . the basic purpose of the original . . . decree," *Chrysler Corp.* v. *United States,* 316 U. S. 556, 562 (1942); *United States* v. *Swift & Co.,* 286 U. S. 106 (1932).

In *United States* v. *Swift & Co.,* 286 U. S. 106, 114 (1932), this Court made it clear that the power to modify an anti-trust decree inheres in a court of equity, saying:

> "Power to modify the decree was reserved by its very terms . . . If the reservation had been omitted, power there still would be by force of principles inherent in the jurisdiction of the chancery."

In the present proceedings, as in the *Swift* case, the District Court, in Article X of its Final Decree, explicitly reserved jurisdiction to deal with matters such as those raised by National's petition.

This power to modify a decree is not, to be sure, unlimited, as *Chrysler Corp.* v. *United States,* page 11, *supra,* shows. The lower Court modified the final decree of May 15, 1951 only after extensive argument and briefing, Findings of Fact (J. S. A. 63), Conclusions of Law (J. S. A. 75) and an Opinion (J. S. A. 13) in which the Court de-

---

Its opportunity to know the record and to appraise the need for prohibitions or affirmative actions normally exceeds that of any reviewing court. This has been repeatedly recognized by us." (340 U. S. at p. 89.)

termined that to effectuate fully its basic purpose the original decree must be modified (J. S. A. 94). The Court's exercise of its power to modify was clearly designed to effectuate the basic purpose of the original decree and consequently ought not to be reviewed. This Court had made it clear that the purpose of the decree which it directed the District Court to enter was "so far as practicable, [to] cure the ill effects of the illegal conduct, and assure the public freedom from its continuance . . . The conspirators should, so far as practicable, be denied future benefits from their forbidden conduct" 340 U. S. at pp. 88-89. Modification of the decree specifically enjoining USG from enforcing its misused patents against National Gypsum Company for the period prior to the entry of the final decree did no more than to apply and implement that purpose. See, e.g., *Morton Salt Co.* v. *Suppinger Co.*, 314 U. S. 488, 491 (1942); *Westinghouse Electric Corp.* v. *Bulldog Electric Products Co.*, 179 F. 2d 139 (4th Cir. 1950); *McCullough* v. *Kammerer Corp.*, 166 F. 2d 759 (9th Cir. 1948), *cert. denied*, 335 U. S. 813 (1948); *Campbell* v. *Mueller*, 159 F. 2d 803 (6th Cir. 1947); *National Lockwasher Co.* v. *George K. Garrett Co.*, 137 F. 2d 255 (3d Cir. 1943).

The modification merely made explicit that which necessarily must have been implied if Article IV of the decree declaring the patent license agreements nullities were to have purpose or effect, and it aborted USG's attempt to subvert the decree, both directly through the counts on the illegal agreements, and, elsewhere[14] as the District Court found, through "a left-handed, indirect method." (Conclusions of Law, 12/9/54, No. 14, J. S. A. 78.)

Even greater reason attaches for honoring the discretion of the trial court in modification of a litigated decree than

---

14 On the *indebitatus assumpsit* count.

in the "molding" of the initial decree, which this Court has called "this most significant phase of the case", *United States* v. *U. S. Gypsum Co.*, 340 U. S. 78, 89. Inappropriate provisions in the initial decree may defeat the great objective of the antitrust litigation "to restore future freedom of trade" (*Id.*). A modification of the decree designed to "effectuate" rather than "to thwart the basic purpose" of the original decree (See *Chrysler Corp.* v. *United States*, 316 U. S. 556, 562) is an action which cannot defeat the public interest in the litigation, and as to its need the trial court with intimate knowledge of the record will have particular competence. The lower Court does no more than mold its decree to accommodate a change in circumstances.

As this Court recently said, "necessarily an ample degree of discretion appropriate for disciplined and experienced judges must be left to the lower Courts." *Kerotest Manufacturing Co.* v. *C-O-Two Fire Equipment Co.*, 342 U. S. 180, 183-184 (1952). If every review of modification of an antitrust decree designed to implement its purpose were to be heard by this Court, the sluices would be opened to a torrent of unnecessary and stultifying appellate activity. Importance of the outcome merely to the parties should not be enough to activate this Court. Cf. *Layne & Bowler Corp.* v. *Western Well Works Inc.*, 261 U. S. 387, 392-3 (1923); *United States* v. *Rimer*, 220 U. S. 547, 548 (1911); *Murdock* v. *Memphis*, 20 Wall. (87 U. S.) 590, 628-29 (1875). And *cf.* Mr. Justice Frankfurter concurring in *Stainback* v. *Mo Hock Ke Lok Po Corp.*, 336 U. S. 368, 385 (1949); *Wilkerson* v. *McCarthy*, 336 U. S. 53, 66-67 (1949).

2.

The questions presented in appellant's jurisdictional statement are so unsubstantial as not to warrant further consideration by this Court.

USG suggests that substantial questions exist because:

(1) the District Court erroneously found continued patent misuse through misapplication of the teaching of *Hartford-Empire Co., et al.* v. *United States,* 323 U. S. 386, 324 U. S. 570 (J. S. 19);

(2) the District Court found patent misuse in USG's effort to enforce the royalty provisions of the voided patent license agreements in counts of its suits against its licensees when the Court could have disregarded these deliberately and explicitly pleaded counts by application of Rule 8 of the Federal Rules of Civil Procedure (J. S. 22);

(3) the District Court's finding of continued patent misuse conflicts with Title 35, U. S. C. Sec. 271 (d) (J. S. 24); and

(4) the District Court's exercise of discretion is reviewable by this Court (J. S. 25).

(5) USG also asserts, without discussion, that the decree of the District Court is inappropriate "for disposing of the misuse and purge issues as a matter of law and without the taking of any evidence" (J. S. 25-26).

Except for the problem of District Court discretion, which is discussed at pages 8-15, *supra,* we consider, *seriatim,* these questions as raised by appellant.

(1) It has already been noted that the District Court's reliance on "the teaching in the *Hartford-Empire* case" was but an alternative base for its decision bottomed on the "practical and legal situation in the case" [15] enjoining USG's prosecution of its infringement claims. (Conclusions of Law, 12/9/54, No. 16, J. S. A. 78-79.) That decision of this Court, however, offered a solid precedent for the District Court's decree and its application to the facts at bar presents no important or substantial question. In the first *Hartford-Empire* opinion, 323 U. S. 386, this Court was faced for the first time with the problem of defining appropriate remedies for violations of the antitrust laws under an analogous factual and legal situation where there existed broad industry-wide restraints and monopolization through patent misuse. It provided for compulsory licensing at reasonable royalties for the post-decree period and an injunction against the assertion of infringement claims for the pre-decree period (323 U. S. at 419). The same remedy was adopted on similar facts in the *National Lead* case, 332 U. S. 319 (1947), *affirming* 63 F. Supp. 513 (S. D. N. Y. 1945). The basic teaching of *Hartford-Empire*, and obviously that on which the lower Court relied in the present proceeding, was that pre-decree infringement claims could be forbidden as well as compulsory licensing granted where patents have been misused under the antitrust law. Some of Hartford's licensees, however, paid their royalties during the period between the initial and final decrees to Hartford's receiver, who had been appointed, *inter alia*, "to prevent any further abuse of the patent privileges of Hartford", 46 F. Supp. 541, 620 (D. D. C. 1942). These licensees who

---

15 The Court in analyzing this situation looked to the unlawful use of USG patents in violating the antitrust laws which had the effect of placing the licensees in a "perilous position" (J. S. A. 47), and also considered USG's continued misuse of its patents (J. S. A. 56-57).

had paid royalties were, of course, not infringers during this period of time. Consequently, the holding of the Supreme Court as to the disposition of the funds paid into the receiver in no way constitutes a precedent for the disposition of the claims of the present proceeding and could not have furnished the "teaching" of the case referred to by the lower Court (J. S. A. 50).

The treatment of earmarked royalties in *Hartford-Empire* in no way subtracted from the precedent value of that decision as to the propriety of enjoining actions for pre-decree infringement, and USG's inaccurate description of the meaning of that case (Compare J. S. 20-21 *with* the supporting reference there given: 323 U. S. 409, 415) cannot create a substantial question.

(2) USG's second claim to a pending substantial question is based upon an asserted failure of the lower Court to apply Rule 8 of the Rules of Civil Procedure in determining the meaning of USG's pleadings in its suits against the co-defendants (J. S. 22-24).

The lower Court found that the counts on the voided license agreements violated the decree (Conclusions of Law, 12/9/54, No. 13, J. S. A. 78) and that the counts *dehors* the agreement were but an indirect way of attempting to force a recovery which it was the purpose of the final decree to prevent (Conclusions of Law, 12/9/54, No. 14, J. S. A. 78).

The propriety of modification of the decree does not stand or fall upon the District Court's interpretation of USG's pleadings. USG urges that because of Rule 8 of the Rules of Civil Procedure the District Court should have disregarded its pleading on the contracts voided by the antitrust decree. In effect USG claims that the deliberate acts of a sophisticated pleader ought to be dis-

regarded. Nothing in Rule 8 which allows alternative claims for relief gives support to this startling suggestion.

Were there substance to the contention that the pleading should be disregarded, since the "final theory of recovery is for the Court rather than the pleader" (J. S. 23) it would prove too much and could only defeat appellant's afterthought that the action sounds in theory other than contract (J. S. 24). All the counts were for sums computed on the contract base for royalties. (See pages 4-5, *supra.*) The *indebitatus assumpsit* count was found by the Court below to be "based on a pleaded express contract" (Findings of Fact, 12/9/54, No. 28, J. S. A. 73). The remedies available for patent infringement are wholly statutory[16] and have no common law basis. Consequently, *quantum meruit* and quasi-contractual actions cannot lie. *Gayler* v. *Wilder,* 51 U. S. 476, 493 (1850); *Bellavance* v. *Plastic-Craft Novelty Co.,* 30 F. Supp. 37 (D. Mass. 1939); *In re Paramount Publix Corp.,* 8 F. Supp. 644 (S. D. N. Y. 1934); see *Schillinger* v. *United States,* 155 U. S. 163 (1894). By mechanical elimination the Court below in determining the theory of the cause of action would have been left with three counts based on the contract and one for infringement. Under such circumstances it would have been an arbitrary if not a fatuous choice had the lower Court found that USG had pleaded merely an action for infringement.

(3) USG also asserts (J. S. 24-25) that the trial Court's conclusion of a continuing misuse of patents during the pre-decree period conflicts with the recent codification of

---

16 A patentee may sue for damages for infringement at law or seek an injunction, accounting and damages in equity. 35 U. S. C. Secs. 281, 283, 284; *Ryan Distributing Corp.* v. *Coley,* 51 F. Supp. 377 (E. D. Pa. 1943), *aff'd* 147 F. 2d 138 (3d Cir. 1945), *cert. denied* 325 U. S. 859 (1945).

the patent laws, Title 35, U. S. C. Sec. 271 (d). It is there provided:

> "No patent owner *otherwise entitled to relief for infringement* . . . shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having . . . (3) sought to enforce his patent rights against infringement or contributory infringement." [17] (Emphasis added.)

The argument is that since the mere bringing of a patent infringement suit is not a misuse, *a fortiori,* a suit on a voided license agreement is not itself a misuse (J. S. 24). This extraordinary contention was advanced for the first time on USG's motion for a new trial and was disposed of by the Trial Court's memorandum opinion of June 30, 1955 (J. S. A. 93-94). The Court, speaking of the statute, said:

> "The vital words for us . . . are 'otherwise entitled.' Patents are classical instruments in conspiracies and combinations to violate the Sherman Act. Can it be that where a designated misuse of patents—here patent license agreements—has been adjudged to be violative of that Act that thereafter the patentee-licensor is absolutely protected by paragraph (d) (3) from the defense of misuse in recovering upon those adjudged unlawful agreements? Can it be possible that Congress intended, by paragraph (d), to give to a patentee a protection superior to the broad public policy of the Sherman Act?" [18]

---

17 This codification became effective January 1, 1953. Thereafter, USG sued on its illegal agreements and for infringement.

18 Inaccurately quoted by appellant at J. S. A. 94.

It answered its own questions by stating:

> "We cannot believe that paragraph (d) was intended to or can properly be construed as nullifying the power of this Court to effectuate the purposes of an anti-trust decree. In short USG is *not* 'otherwise entitled' to come within paragraph (d) (3)."

No extended discussion is needed to demonstrate that Title 35, U. S. C. Sec. 271 (d) is inapposite to the present proceeding. From the face of the statute it is plain that the statute merely lays down the principle that a patentee *otherwise entitled to relief* is not guilty of misuse by merely enforcing his patent rights against *infringement or contributory infringement*. That, of course, is not what USG did in the proceedings brought against its licensees. Its infringement claim constituted only one of five or six counts. The statute is limited solely to enforcing "rights against infringement." A suit on a license agreement is on a contract; a suit for infringement is for a tort.[19] It was the suit on the voided license agreement which the lower Court primarily relied upon as showing continued misuse and consequently USG can get no comfort from the statute. It is further apparent from the face of the statute that to have access to its provisions the patent owner must be "*otherwise entitled* to relief for infringement." As we have seen, this Court has held that the patentee is not so entitled during a period while his patents are being used as instruments for monopoly and prior to purge, and consequently

---

19 Compare *Carbice Corp.* v. *American Patent Development Corp.*, 283 U. S. 27, 33 (1931); *Faulkner* v. *Gibbs*, 199 F. 2d 635, 638 (9th Cir. 1952); *Lincoln Engineering Co.* v. *Stewart-Warner Corp.*, 91 F. 2d 757, 763 (7th Cir. 1937), revsd. on other gds., 303 U. S. 545 (1938) *with Eclipse Bicycle Co.* v. *Farrow*, 199 U. S. 581, 586-88 (1905); *Sbicca-Del Mac Inc.* v. *Milius Shoe Co.*, 145 F. 2d 389 (8th Cir. 1944); *Saw-Lowell Shops* v. *Reynolds*, 141 F. 2d 587, 596 (4th Cir. 1944).

the statute cannot protect the infringement count. *E.g., Mercoid Corp.* v. *Mid-Continent Investment Co.,* 320 U. S. 661, 664-665 (1944); *B. B. Chemical Co.* v. *Ellis,* 314 U. S. 495, 497-98 (1942).

(4, 5) We have shown at pp. 8-15, *supra,* that the District Court's modification of the May 15, 1951 decree fell well within the scope of its discretionary powers. USG urges, however, that the modification is "inappropriate" "for disposing of the misuse and purge issues as a matter of law and without the taking of any evidence." (J. S. 25-26.)

National Gypsum did not pay royalties for any part of the period from February 1, 1948 (because of this Court's decision on March 8, 1948) until May 15, 1951, the date of the final decree of the District Court (see pp. 3-4, *supra*). The District Court found that USG had not purged its misuse of patents during this period, or at any time (Findings of Fact, 12/9/54, No. 22, J. S. A. 70; Conclusions of Law, 12/9/54, Nos. 11, 12, 13, 15, J. S. A. 78). The pertinent question, therefore, on National's petition is whether the Trial Court as a matter of law could have decided the question of purge for this period ending May 15, 1951 without the taking of evidence. The lower Court had before it a claim of purge taking place during a twenty-five month span while the proceedings were mostly either before the Supreme Court on appeal or the lower Court for reconsideration.[20]

---

20 This Court rendered its decision on March 8, 1948 (333 U. S. 364) and denied a rehearing on April 5, 1948 (333 U. S. 869). Thereafter, beginning on June 8, 1948, the case was again before the District Court where numerous briefs and memoranda were filed by all parties, in connection with the United States' motion for summary judgment, the offers of proof, suggested findings of fact and the form and contents of the decree to be entered. After a hearing by the District Court on July 14, 1949, further memoranda were submitted up to August 12, 1949 (J. S. A. 65-66). The

The District Court reached the conclusion that the effects of the patent misuse remained undissipated upon consideration of USG's five factual claims of purge, finding that "neither taken separately nor cumulatively do any or all of these matters amount to evidence of purge by USG of its misuse of its patents" (Findings of Fact, 12/9/54, No. 22, J. S. A. 70-72). The course of conduct of USG, "as clearly shown by the proceedings of record in the antitrust case and in these suits by USG" (Conclusions of Law, 12/9/54, Nos. 11, 13, J. S. A. 78) constituted the "practical and legal situation in this case" which required modification of the decree, and it was only alternatively because of the "teaching in the *Hartford-Empire* case" that the District Court ordered modification of the final decree (Conclusions of Law, 12/9/54, No. 16, J. S. A. 78-79).

USG advances no cogent reason why this Court should review the District Court's finding that its factual claims cannot amount to a purge in law. A glance at this Court's decision at 333 U. S. 364 shows that USG's wrong was not limited to illegal price-fixing, but as the Court below found, that restraint was "inseparably joined with the other provisions found violative of the Act." Consequently, USG's first claimed act of purge—a tentative notice sent to its licensees while litigation was pending that USG would suspend price fixing "until we decide again to exercise our right to do so" (Findings of Fact No. 22, J. S. A. 70)—cannot amount to more than a grudging attempt to

---

Court entered its decree on November 17, 1949 (J. S. A. 68). Both the United States and USG appealed, and on May 29, 1950, this Court dismissed USG's appeal (339 U. S. 959, 960) and noted probable jurisdiction in the appeal of the United States (339 U. S. 960). The case was argued on October 19, 1950 and decided on November 27, 1950 (340 U. S. 76). Once again, the case was before the lower Court from January 4, 1951 when the mandate was filed until May 15, 1951 when the final decree was entered (J. S. A. 69).

cure but part of its illegal activity (J. S. A. 54).[21] Secondly, a claim of purge was bottomed on USG's asserted acquiescence in its licensees' cessation of royalty payments. The suits to recover royalties under the agreement, and this appeal, show that the acquiescence, whatever operative legal meaning it might have had, never took place,[22] or, having taken place, was abandoned in a deliberate effort to flout the decree (J. S. A. 54-55). A third claim was based on USG's proffer of license agreements in 1949 in new form. Since these agreements were not intended to become effective until entry of the District Court's decree, and differed from what this Court approved (340 U. S. 76), the proffer could have no effect until May 15, 1951 and cannot here be material (Findings of Fact, 12/9/54, No. 22, J. S. A. 71). Fourthly, a claim was made that USG determined it would not appeal the District Court's decision unless the Government appealed. USG in fact appealed on very different questions from those posed by the Government, and consequently this subjective nicety can have had no objective

---

21 The District Court said of this attempt:

"The first of these five is that USG did not fix prices, under its licenses, after July 8, 1941. This is true. However, its effect is dissipated by two considerations: first, the notices that minimum prices bulletins would be suspended included the statement that such suspension would continue 'until we decide again to exercise our right to do so';[16] and, second, this price fixing provision is inseparably joined with the other provisions found violative of the Act (*Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394; *MacGregor* v. *Westinghouse Elec. & Mfg. Co.*, 329 U. S. 402)."

---

16 The "potential power" (*Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436, 458) remained.

22 The District Court found that there is no basis for this claimed "acquiescence" (J. S. A. 71).

effect.[23] (*Compare* 339 U. S. 959 *with* 339 U. S. 960.) Finally, and curiously, USG relies in support of purge upon the Supreme Court's injunction of May 29, 1950 against its "enforcing in any manner whatsoever" the price provisions of the illegal license agreements which USG had tentatively abandoned with reservation of a right of reassertion (339 U. S. 960). The patent license agreements were illegal in their entirety[24] and had been stricken in their entirety before that decision of this Court, as they were again in the final decree which followed, but in defiance of these rulings USG launched the suits based on the agreements which were enjoined. The District Court found that "the USG suits now pending show conclusively . . . that even now it is striving to enforce the royalty provisions of the illegal patent license agreements." (Findings of Fact, 12/9/54, No. 22, J. S. A. 72.) Henry David Thoreau once said, "Some circumstantial evidence is very strong, as when you find a trout in the milk." [25] Certainly the Supreme Court's opinion of May 29, 1950 is the basis for a finding of violation, but only the magic of advocacy can draw from it support for a claim of purge.

On the very claims made there was, therefore, no need for the taking of testimony, since the maximum claimed, if proved, would have been insufficient in law to support the burden of proof which fell upon USG (*United States* v.

---

23 The District Court found that "neither this unacted upon decision not to appeal nor an appeal by the Government in any way affects this matter of purge." (J. S. A. 71.)

24 It was settled law in this Court before the decree that unlawful price-fixing provisions in patent license agreements are not severable from the license provisions for the payment of royalties. *Edward Katzinger Co.* v. *Chicago Mfg. Co.*, 329 U. S. 394, 401 (1947); *Mac Gregor* v. *Westinghouse Co.*, 329 U. S. 402, 407 (1947).

25 *Journal*, November 1850.

U. S. Gypsum Co., 340 U. S. 76, 85-88 (1950); *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495, 498 (1942); See also *Park-In Theatres Inc.* v. *Paramount-Richards Theatres Inc.*, 81 F. Supp. 466, 470 (D. Del. 1948), *aff'd*, 185 F. 2d 407 (3d Cir. 1950), *cert. denied*, 341 U. S. 950 (1951); *United States* v. *Vehicular Parking, Ltd.*, 61 F. Supp. 656, 658 (D. Del. 1945); *Id.*, 56 F. Supp. 297, 298 (D. Del. 1944).

In oral argument below, and in its briefs, appellant had ample opportunity to make an offer of proof or to particularize the manner in which the taking of testimony might help its cause. It is to be supposed that if any evidence were available to appellant which might have shown purge or dissipation of the unlawful restraints, it would have come forward below with a representation that such evidence existed. The most that able counsel urged on the Court was that purge could be shown by the "five facts" of record, the significance of which has been discussed above. Although appellant made the reservation in a footnote in its brief[26] that these facts "are of course only illustrative and not the only or exclusive facts showing purge" the District Court found that "in spite of this cautionary reservation, we must conclude that USG is presenting here those matters which it regards as most potent in showing purge" (J. S. A. 54). The failure of appellant to specify as evidence of purge matters other than those of record which it asserted operated as a purge in law,[27] constituted a surrender of any serious claim to the need for the taking of evidence.

---

26 "Brief of U. S. Gypsum Company in Answer to Briefs Filed Herein by Defendant-Petitioners", filed September 8, 1953, p. 134, note 82A.

27 Counsel for appellant stated in argument before the Court, referring to circumstances appearing in the record, "if the burden is on us in this Court to show a purge, why then we have shown it." (Transcript of hearing on January 13, 1954, p. 213.)

Nowhere in its Jurisdictional Statement does USG attempt to make a showing that its patent misuse has been terminated nor in the Court below did USG attempt to meet its burden to introduce facts which would operate in law as a purge. Consequently, the District Court, using its "more flexible procedure" for the settlement of a decree (340 U. S. 76) acted well within the scope of its discretion in implementing the purpose of the Final Decree of May 15, 1951 by barring USG from recovery on its misused patents in actions brought against the petitioners. *Besser Mfg. Co.* v. *United States,* 343 U. S. 444, 449 (1952); *International Salt Co.* v. *United States,* 332 U. S. 392, 400, 401 (1947); *United States* v. *National Lead Co.,* 332 U. S. 319, 334-335 (1947); *Associated Press* v. *United States,* 326 U. S. 1, 22 (1945); *United States* v. *Crescent Amusement Co.,* 323 U. S. 173, 185-187 (1944); *Chrysler Corp.* v. *United States,* 316 U. S. 556, 562 (1942).

We respectfully submit, therefore, that the appellant presents no substantial question for the decision of this Court, and that the judgment and decree of the District Court should be affirmed.

ELMER FINCK,
SAMUEL I. ROSENMAN,
SEYMOUR D. LEWIS,
MALCOLM A. HOFFMANN,
SEYMOUR KRIEGER.

Attorneys for National Gypsum Company

November, 1955.

NOV 2 3 1
HAROLD B. WILLE

IN THE

Supreme Court of the United States

OCTOBER TERM, 1955

No. ~~485~~ 11

UNITED STATES GYPSUM COMPANY,
Appellant,

against

UNITED STATES OF AMERICA; NATIONAL GYPSUM COMPANY; CERTAIN-TEED PRODUCTS CORPORATION; THE CELOTEX CORPORATION; EBSARY GYPSUM COMPANY, INC., and NEWARK PLASTER COMPANY,
Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

MOTION TO AFFIRM MADE BY APPELLEES, NEWARK PLASTER COMPANY AND EBSARY GYPSUM COMPANY, INC., PETITIONERS IN THE COURT BELOW

BENJAMIN P. DEWITT,
SIDNEY PEPPER,
120 Broadway,
New York 5, New York,
Counsel for Appellee,
Newark Plaster Company.

JOSEPH S. RIPPEY,
612 Powers Building,
Rochester 14, New York,
Counsel for Appellee,
Ebsary Gypsum Company, Inc.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1955

No. 485

UNITED STATES GYPSUM COMPANY,

Appellant,

against

UNITED STATES OF AMERICA; NATIONAL GYPSUM COMPANY; CERTAIN-TEED PRODUCTS CORPORATION; THE CELOTEX CORPORATION; EBSARY GYPSUM COMPANY, INC., and NEWARK PLASTER COMPANY,

Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

MOTION TO AFFIRM

Appellees, Newark Plaster Company and Ebsary Gypsum Company, petitioners below, pursuant to Rule 16 of the Revised Rules of the Supreme Court of the United States, move that the final decree of the United States District Court for the District of Columbia be affirmed on the ground that the questions presented are so unsubstantial as not to need further argument.

Statement

This is a direct appeal under Section 2 of the Expediting Act, 15 U. S. C. 29, from the final decree entered on December 9, 1954 by a District Court of three judges, specially constituted pursuant to Section 1 of the Expediting Act, 15

U. S. C. 29, modifying its final decree of May 15, 1951 in this Government antitrust suit.

Prior to the entry of that decree on May 15, 1951 this suit was three times before this Court, 333 U. S. 364, 339 U. S. 959 and 960 and 340 U. S. 76.

In Article IV of the final decree of May 15, 1951 the District Court adjudged the patent license agreements between United States Gypsum Company and the respective appellees "illegal, null and void".

No appeal was taken from the final decree of May 15, 1951.

Although the said license agreements had been adjudged illegal, null and void, United States Gypsum Company in 1953 commenced actions against the respective appellees in various jurisdictions in which it sought recoveries on the said license agreements.

Thereafter, these appellees and National Gypsum Company and Certain-Teed Products Corporation filed petitions with the United States District Court for the District of Columbia to enjoin United States Gypsum Company from continuing the said actions brought by United States Gypsum Company against them.

The District Court found that United States Gypsum Company continued to misuse its patents down to the dates on which United States Gypsum Company commenced its actions against the appellees. The District Court in its decree entered December 9, 1954 therefore modified its prior decree of May 15, 1951 to direct United States Gypsum Company to discontinue and dismiss with prejudice its pending actions against these appellees as well as the actions against National Gypsum Company and Certain-Teed Products Corporation. A subsequent motion by United States Gypsum Company for a new trial was denied by the District Court on June 30, 1955.

A further statement of the proceedings in this suit is contained in a similar motion to affirm, made by appellee, National Gypsum Company, and these appellees hereby adopt and join in such statement with the same force and effect as if set forth at length herein.

Argument

These appellees hereby also adopt and join in the argument set forth in the said motion to affirm of appellee, National Gypsum Company, with the same force and effect as if set forth at length herein.

We respectfully submit, therefore, that appellant presents no substantial question for the decision of this Court and that the final decree of the District Court entered December 9, 1954 should be affirmed.

November 18, 1955.

Respectfully submitted,

BENJAMIN P. DEWITT,
SIDNEY PEPPER,
Counsel for Appellee, Newark Plaster Company,

JOSEPH S. RIPPEY,
Counsel for Appellee, Ebsary Gypsum Company, Inc.

FILED
NOV 23 19
HAROLD B. WILLEY

IN THE

Supreme Court of the United States

OCTOBER TERM, 1955.

No. 485 //

UNITED STATES GYPSUM COMPANY,
Appellant,

— against —

UNITED STATES OF AMERICA; NATIONAL GYPSUM COMPANY; CERTAIN-TEED PRODUCTS CORPORATION; THE CELOTEX CORPORATION; EBSARY GYPSUM COMPANY, INC.; NEWARK PLASTER COMPANY, ET AL.,
Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA.

MOTION OF APPELLEE CERTAIN-TEED PRODUCTS CORPORATION, PETITIONER IN THE COURT BELOW, TO AFFIRM THE FINAL JUDGMENT AND DECREE OF THE DISTRICT COURT.

HERBERT W. HIRSH,
NORMAN A. MILLER,
135 South La Salle Street,
Chicago 3, Illinois,
Attorneys for Certain-Teed Products Corporation.

Of Counsel:
GANSON PURCELL,
910 17th Street, N.W.,
Washington, D. C.

INDEX.

PAGE

Motion of Appellee Certain-teed Products Corporation to Affirm the Final Judgment and Decree of the District Court 1

Statement 2-8

Argument: 8

A. The Decision of the District Court Is Correct and No Substantial Questions Are Presented 8-9

B. The Injunction Entered by the District Court Is an Appropriate Remedy..... 9-11

C. The Modification of the District Court's Decree Was Within Its Discretion; It Had Inherent Power to Modify Its Decree 11-14

D. Modification of the District Court's Decree Effectuated the Basic Purpose Thereof 14-16

E. The District Court Properly Held That U. S. G. Had Not Purged the Misuse of Its Patents 16-19

F. The Teaching of the Hartford-Empire Case Was a Proper Precedent for the District Court's Decree 19-21

G. Rule 8 of the Rules of Cvil Procedure Has No Application to the Questions in Issue.... 21

a. The United States Did Not Take the Position That It Did Not Oppose U. S. G.'s Suits Against Its Licensees 21-23

b. The Quantum Meruit Counts in the U. S. G. Suits Cannot Be Sustained 23-24

H. Codification of the Patent Laws Does Not Support U. S. G.'s Suits on the Void License Agreements 24-27

Conclusion 27

CASES CITED.

Apex Electrical Mfg. Co. v. Altorfer Bros. Co., 130 F. Supp. 152 (S. D. Ill., N. D., 1955) 10-11

Associated Press v. United States, 326 U. S. 1, 22 (1945) 11, 26

B. B. Chemical Co. v. Ellis, 314 U. S. 495, 497, 498 (1942) 19, 26

Bellavance v. Plastic-Craft Novelty Co., 30 F. Supp. 37 (D. Mass., 1939) 23

Besser Mfg. Co. v. United States, 343 U. S. 444, 449 (1952) 12, 13, 26

Bruce's Juices v. American Can Co., 330 U. S. 743, 748, 756 (1947) 24

Cabot, Inc. v. Binney & Smith Co., 46 S. Supp. 346 (D. N. J., 1942) 10

Campbell v. Mueller, 159 F. 2d 803 (6th Cir., 1947) ... 14

Carbice Corp. v. American Patents Development Corp., 283 U. S. 27, 33 (1931) 25

Chicago Pneumatic Tool Co. v. Hughes Tool Co., 180 F. 2d 97 (10th Cir., 1950) 10

Chrysler Corp. v. United States, 316 U. S. 556, 562 (1942) 11, 13, 14, 15, 26

Cold Metal Products Co. v. Crucible Steel Co., 126 F. Supp. 546 (D. N. J., 1954) 10

Crosley Corp. v. Hazeltine Corp., 122 F. 2d 925, 929-30 (3rd Cir., 1941), cert. denied, 315 U. S. 813 (1942) 9

Eclipse Bicycle Co. v. Farrow, 199 U. S. 581, 586-88 (1905) 25

Ethyl Gasoline Corp. v. United States, 309 U. S. 436, 458 (1940) 18

Faulkner v. Gibbs, 199 F. 2d 635, 638 (9th Cir., 1952) 25

Gayler v. Wilder, 51 U. S. 477, 493 (1850) 23
In re Georgia Power Co., 89 F. 2d 218, 221 (5th Cir., 1937), cert. denied 302 U. S. 693 (1937) 9
Hartford-Empire Co. v. United States, 323 U. S. 386, 409, 415, 418-419 (1945) 7, 10, 17, 19, 20, 26
Hopper Co., Inc. v. Samuel M. Langston Co., 56 F. Supp. 577 (D. N. J., 1944) 10
Independent Pneumatic Tool Co. v. Chicago Pneumatic Tool Co., 74 F. Supp. 502 (N. D. Ill., E. D., 1947) .. 10
International Salt Co. v. United States, 332 U. S. 392, 400, 401 (1947) 12, 26
Katzinger Co. v. Chicago Metallic Mfg. Co., 329 U. S. 394, 401 (1947) 18, 19
Kerotest Manufacturing Co. v. C-O-Two Fire Equipment Co., 342 U. S. 180, 183-184 (1952) 9, 15
Kobe, Inc. v. Dempsey Pump Co., 97 F. Supp. 342 (N. D. Okla., 1951), affirmed 198 F. 2d 416 (10th Cir., 1952), cert. denied 344 U. S. 837 (1952) 10
Layne & Bowler Corp. v. Western Well Works, Inc., 261 U. S. 387, 392-3 (1923) 15
Lincoln Engineering Co. v. Stewart-Warner Corp., 91 F. 2d 757, 763 (7th Cir., 1937) 25
MacGregor v. Westinghouse Elec. & Mfg. Co., 329 U. S. 402, 407 (1947) 18, 19
McCullough v. Kammerer Corp., 166 F. 2d 759 (9th Cir., 1948), cert. denied, 335 U. S. 813 (1948) 14
Mercoid Corp. v. Mid-Continent Investment Co., 320 U. S. 661, 664-665 (1944) 26
Milwaukee Gas Spec. Co. v. Mercoid Corp., 104 F. 2d 589 (7th Cir., 1939) 10
Morton Salt Company v. Suppiger Company, 314 U. S. 488, 491 (1942) 14

Murdock v. Memphis, 20 Wall. (87 U. S.) 590, 628 (1875) 15

National Lockwasher Co. v. George K. Garrett Co., 137 F. 2d 255 (3rd Cir., 1943) 14

In re Paramount Publix Corp., 8 F. Supp. 644 (S. D., N. Y., 1934) 23

Park-In Theatres v. Paramount-Richards Theatres, 81 F. Supp. 466 (D. Del., 1948) 19

Ryan Distributing Corp. v. Caley, 51 F. Supp. 377 (E. D. Pa., 1943), aff'd 147 F. 2d 138 (C. A. 3, 1945), cert. denied 325 U. S. 859 (1945) 23

Saco-Lowell Shops v. Reynolds, 141 F. 2d 587, 596 (4th Cir., 1944) 25

Sbicca-Del Mac, Inc. v. Milius Shoe Co., 145 F. 2d 389 (8th Cir., 1944) 25

Schillinger v. United States, 155 U. S. 163 (1894) 23

Stainback v. Mo Hock Ke Lok Po Corp., 336 U. S. 368, 385 (1949) 15

Steelman v. All Continent Corp., 301 U. S. 278, 289-291 (1937) 9

United States v. Crescent Amusement Co., 323 U. S. 173, 185-187 (1944) 11, 26

United States v. National Lead Co., 63 F. Supp. 513, 534 (S. D., N. Y., 1945), affirmed 332 U. S. 319, 334 (1947) 10, 12, 20, 26

United States v. Rimer, 220 U. S. 547, 548 (1911) 15

United States v. Swift & Co., 286 U. S. 106, 114 (1932) 13

United States v. U. S. Gypsum Co., 333 U. S. 364, 371, 397, 398 (1948) 3, 4

United States v. U. S. Gypsum Co., 339 U. S. 959 (1950) 3, 18

United States v. U. S. Gypsum Co., 339 U. S. 960 (1950) 3, 18

United States v. U. S. Gypsum Co., 340 U. S. 76, 78, 88-89, 93-94 (1950) 3, 4, 10, 12, 15
United States v. Vehicular Parking, Ltd., 56 F. Supp. 297 (D. Del., 1944), 61 F. Supp. 656 (D. Del., 1945) .11, 19
Westinghouse Electric Corp. v. Bulldog Electric Products Co., 179 F. 2d 139 (4th Cir., 1950) 14
Wilkerson v. McCarthy, 336 U. S. 53, 66-67 (1949) ... 15
Yocum v. Philadelphia Arena, Inc., 96 F. Supp. 329 (E. D. Pa., 1951) 10

STATUTES AND RULES CITED.

Title 15, U. S. C., Sections 28, 29 2
Title 28, U. S. C., Sections 1253, 2101 2
Title 35, U. S. C., Sections 271(l), 281, 283, 284..23, 24, 25
Federal Rules of Civil Procedure, Rule 8 .....21, 23

IN THE

Supreme Court of the United States

OCTOBER TERM, 1955.

No. 485.

UNITED STATES GYPSUM COMPANY,

Appellant,

— against —

UNITED STATES OF AMERICA; NATIONAL GYPSUM COMPANY; CERTAIN-TEED PRODUCTS CORPORATION; THE CELOTEX CORPORATION; EBSARY GYPSUM COMPANY, INC.; NEWARK PLASTER COMPANY, ET AL.,

Appellees.

MOTION OF APPELLEE CERTAIN-TEED PRODUCTS CORPORATION TO AFFIRM THE FINAL JUDGMENT AND DECREE OF THE DISTRICT COURT.

Certain-teed Products Corporation (hereinafter referred to as "Certain-teed"), a petitioner below, pursuant to Rule 16 of the Revised Rules of the Supreme Court of the United States, moves that the final judgment and decree of the District Court be affirmed on the ground that it is manifest that the questions on which the decision of this cause depends are so unsubstantial as not to warrant further argument.

STATEMENT.

This is a direct appeal under Section 2 of the Expediting Act, 15 U. S. C. 29, and under Sections 1253 and 2101 of Title 28, U. S. C., from the final judgment and decree entered on December 9, 1954, by a District Court of three judges, specially constituted pursuant to Section 1 of the Expediting Act, 15 U. S. C. 28, modifying its final decree of May 15, 1951 on five petitions, including that of Certain-teed Products Corporation, a co-defendant with United States Gypsum Company (hereinafter referred to as "USG") and others in this Government antitrust suit.[1]

On July 6, 1954 the District Court, by Judges Kimbrough Stone and Eugene Worley, acting upon said petitions, delivered its opinion[2] (J. S. A. 13) and on December 9, 1954 entered its findings of fact (J. S. A. 63) and conclusions of law (J. S. A. 75) on the aforesaid petitions and issued its final decree (J. S. A. 80). A motion for a new trial made by United States Gypsum Company (hereinafter referred to as "USG" or "appellant") was denied by the Court on June 30, 1955 (J. S. A. 91) with accompanying memorandum (J. S. A. 92).

In its final decree of December 9, 1954 the Court, after determining that it had jurisdiction of the subject matter and of the parties, modified its decree of May 15, 1951 by

1. Other defendants in the Government action, described by USG as the "corporate appellees", National Gypsum Company, Ebsary Gypsum Company and Newark Plaster Company filed similar petitions for orders, modifications or directions for enforcement, construction or carrying out of the final decree of May 15, 1951, as did the plaintiff, the United States of America.

2. Judge William P. Cole, Jr. dissented, Appendix to Appellant's Jurisdictional Statement, p. 58. The Jurisdictional Statement is hereinafter designated as "J. S.", the Appendix to the Jurisdictional Statement as "J. S. A."

adding to Article V thereof[3] a paragraph reading as follows:

> "Defendant United States Gypsum Company is hereby ordered and directed to discontinue and to dismiss with prejudice to United States Gypsum Company, its pending actions as follows: against National Gypsum Company, in the United States District Court for the Northern District of Iowa; against Certain-Teed Products Corporation, in the same District Court; against Newark Plaster Company, in the United States District Court for the District of New Jersey; and against Ebsary Gypsum Company, Inc., in the United States District Court for the Southern District of New York." (J. S. A. 81.)

The suit which resulted in the final decree of May 15, 1951 was instituted by the United States in 1940 and has been before this Court on three prior occasions, 333 U. S. 364, 339 U. S. 959, 339 U. S. 960, 340 U. S. 76. (The last three mentioned decisions of this Court dealt with appeals by USG and the Government from the District Court's decree of November 7, 1949.) As a result findings were made that USG and five other corporations, including Certain-teed Products Corporation, and six individuals conspired to fix prices on patented gypsum board and unpatented gypsum products in violation of Sections 1, 2 and 3 of the Sherman Act, this Court noting that USG via license agreements maintained rigid control over the price and terms of sale of virtually all gypsum board (333 U. S. at 371) and controlled the sale of unpatented gypsum board and plaster

3. Article V enjoined defendants from (a) fixing prices for gypsum products by patent license agreements or other actions, (b) agreeing upon a basis for selection or classification of purchasers of gypsum products, (c) refraining to sell gypsum products to any purchasers or class of purchasers, (d) agreeing upon or quoting gypsum products pursuant to delivered price plans resulting in identical prices, and (e) policing, investigating, checking or inquiring into prices, quantities, terms or conditions of any offer to sell or sale of gypsum products (J. S. A. 7).

(333 U. S. 397) and acted in concert to eliminate an important class of jobbers (333 U. S. at 398). Pursuant to the mandate of this Court the District Court for the District of Columbia entered its final decree of May 15, 1951 where, *inter alia,* it was adjudged that each of USG's patent license agreements with its co-defendants "is unlawful under the antitrust laws of the United States and illegal, null and void" (Article IV, J. S. A. 6).

Following the first decision of this Court on March 8, 1948 voiding the patent license agreements, Certain-teed discontinued the payment of royalties to USG under its patent license agreement. It made no further payment of royalties until after the final decree of May 15, 1951 when for the first time Certain-teed was able to obtain a new patent license agreement free of illegal restraints (J. S. A. 65).

The District Court's final decree of May 15, 1951 followed a second decision of this Court admonishing the District Court, on the Government's appeal from the narrow scope of its earlier decree, that it should "cure the ill effects of the illegal conduct" 340 U. S. 76, 88 and that, "the conspirators should, so far as practicable, be denied future benefits from their forbidden conduct," 340 U. S. 76, 89. Consequently, the decree of May 15, 1951 expanded the relief earlier granted. It provided for compulsory licensing by USG at reasonable non-discriminatory royalty rates (Article VI; J. S. A. 7), contained the injunction described in note 3 above (Article V; J. S. A. 7), enumerated certain patent licensing agreements "and any supplement or amendment" thereof, including the agreement between Certain-teed and United States Gypsum Company (Article II; J. S. A. 5), and adjudged each of the license agreements listed in Article II as "unlawful under the anti-trust laws * * * illegal, null and void." (Article IV; J. S. A. 6.)

Despite the above decretal provisions, on March 11, 1953, USG commenced an action in the United States District Court for the Northern District of Iowa against Certain-teed, claiming royalties unpaid under the voided license agreement during the period from the Supreme Court's decision to the date of the final decree, in the amount of $650,000.[4] The suit was in five counts. Counts I and II expressly pleaded Certain-teed's liability for royalties in the amount of $650,000 on the license agreement which the decree made a nullity (J. S. A. 73). Count III also alleged Certain-teed's liability for $650,000 at the royalty rate fixed by the illegal agreement and is described in the Findings of Fact of the District Court as a "common law action of *indebitatus assumpsit* based on a pleaded express contract." (Id.) That contract and the relief sought are so stated as to bring about the identical recovery that would have been realized had the count been for recovery upon the royalties provided for in the illegal agreement (*Id.*). Count IV, also in the amount of $650,000 representing the same royalty, was found by the District Court to be a *quantum meruit* count covering the use of patents (*Id.*). Count V charged infringement by Certain-teed of the patent under which licensing rights had been granted to it by the voided agreement and damages are stated as $650,000, again by reference to the royalty rate found in the unlawful agreement (J. S. A. 53).

Proceedings in the Iowa suit were stayed upon the application of Certain-teed (J. S. 14), which thereafter

4. In January and February, 1953, U. S. Gypsum filed separate similar actions against three of the other defendant-licensees who had withheld payment of royalties; against National Gypsum Company in the Northern District of Iowa; against Newark Plaster Co. in the District of New Jersey; against Ebsary Gypsum Co. in the Southern District of New York. These suits were all based on the same theory of cause of action and were all in substantially similar form (J. S. A. 72), although as to the latter two companies the claim was for non-payment of royalties until the dates the complaints were filed.

petitioned the District Court for the District of Columbia to enjoin USG from continuing the Iowa action and from asserting any claim against Certain-teed for payment for use of USG's misused patents for any period of time prior to May 15, 1951, the date of the final decree in the anti-trust proceeding. Other licensees filed similar petitions, and the United States petitioned to enjoin USG from asserting any claim or suit "in whole or in part on any of the license agreements adjudged illegal, null and void by the final decree of this Court entered on May 15, 1951 or on any provision thereof." (J. S. A. 17-18.)

Briefs were filed by each of the petitioners, USG and the United States, and reply briefs were filed by the petitioners. Extensive oral arguments on January 12 and January 13, 1954, were made by all of the parties in interest and comprised 253 pages of reporter's transcript (USG Notice of Appeal, p. 10). The matter was then taken on briefs and oral argument by the Court, which filed its opinion on July 6, 1954 (J. S. A. 13). The majority opinion of 38 pages, considered in detail all of the matters presented by the parties. Thereafter, a motion for a new trial was made by USG and briefs were filed in connection therewith by all of the parties. A full day's oral argument was had by the Court on the motion for a new trial on April 6, 1955, requiring 178 pages of reporter's transcript (USG Notice of Appeal, p. 12).

On these facts the District Court for the District of Columbia concluded that USG should be enjoined from further prosecuting the first two counts of its suit since in asserting them the defendant "clearly violate(d) the express provisions of Article IV" (J. S. A. 77)—the provision of the final decree which declared the patent license agreement to be null and void. The District Court further concluded that since Article IV of the final decree did not expressly or impliedly cover the counts for *indebitatus*

assumpsit, for infringement, or for *quantum meruit*, it would modify the decree in order to enjoin prosecution of such counts (J. S. A. 78-79). The Court pointed out that the "purpose and permissible function of an order for modification of an anti-trust decree is to cover something within the broad purposes of the decree but which, for some proper reason, was not included in the existing decree." (Id.) It noted that it had expressly reserved jurisdiction in Article X of the final decree "to take further action, if experience thereafter should make such necessary or advisable, fully to effectuate the purposes of destroying the monopoly and conspiracy and denying the fruits thereof." (*Id.*) The Court also concluded that in addition to its expressly reserved power in the final decree, as a Court of Equity it had inherent power to modify its decrees "so as to make them fully effective, provided, however, that the decree may not be enlarged beyond its intended proper scope." (J. S. A. 78.) It further concluded that USG had not at any time prior to May 15, 1951, purged itself of its patent misuse and consequently "should be enjoined from further prosecution of all Counts." (*Id.*) It stated that to "allow prosecution of these suits would weaken the effectiveness of the Final Decree" and "*because of the practical and legal situation in this case*, and also the teaching in the *Hartford-Empire* case" (emphasis added) it enjoined their further prosecution. (J. S. A. 78-79.)

Since Certain-teed accepted a license from USG as of May 15, 1951 issues relating to misuse and purge after that date are not pertinent to this motion. Therefore, although Certain-teed believes the decree of December 9, 1954 to be proper in its entirety, the following argument is addressed only to the matters raised in Certain-teed's petition.

ARGUMENT.

A. The Decision of the District Court Is Correct and No Substantial Questions Are Presented.

The decision of the District Court is manifestly correct. That Court had been instructed by this Court to grant relief which will "so far as practicable cure the ill effects of the illegal conduct * * *" 340 U. S. at pp. 88-89. It was confronted with an unrepentant flouting of the decree of May 15, 1951, and a bold attempt to subvert its effectiveness. On the petitions of all the interested parties the Court took the only possible measure which might preserve the dignity and integrity of its final decree. It did so only after elaborate briefing and argument on the issues, including a hearing on a motion for a new trial. With reference to the motion for a new trial, the District Court said:

> "*Per Curiam:* The function of a motion for a new trial is to direct the attention of the Court to matters in the opinion of the trial court, in its finding of fact or in its conclusions of law, which counsel regard as having resulted in an erroneous judgment. Here, counsel for the various parties have ably presented or opposed the present motion.
>
> "Although the merits of these petitions by the Government and the other petitioners were exhaustively discussed and determined, in majority and dissenting opinions, and the settlement of Finding and of the Conclusions and the form of judgment had been painstakingly considered by this Court heretofore in the light of extended invited suggestions from counsel, we have not deemed this present motion as merely a necessary formal step in the progress to a final determination by the Supreme Court. Not only have we

listened to the excellent oral arguments on this motion but we have carefully read and studied the complete transcript of that hearing as well as all of the matters brought to our attention therein." (J. S. A. 92-93.)

As shown by the foregoing and the Statement, pages 2 to 8 hereof, it is clear that all of the contentions on which USG here relies were carefully and fully considered by the District Court and rejected by that Court.

B. The Injunction Entered by the District Court Is an Appropriate Remedy.

To protect its decree and implement its general purpose the District Court employed the traditional and well established procedure of enjoining a multiplicity of actions in other Courts which would derogate from its continuing powers to supervise the operation of its own decree. *Steelman* v. *All Continent Corp.*, 301 U. S. 278, 289-291 (1937); *In re Georgia Power Co.*, 89 F. 2d 218, 221 (5th Cir., 1937), cert. denied 302 U. S. 692 (1937); *Crosley Corp.* v. *Hazeltine Corp.*, 122 F. 2d 925, 929-930 (3d Cir., 1941), cert. denied, 315 U. S. 813 (1942).

In *Kerotest Mfg. Co.* v. *C-O-Two Fire Equipment Co.*, 342 U. S. 180 (1952), this Court upheld an inter-federal court's injunction in a patent infringement case, saying at pp. 183-184:

> "Wise judicial administration giving regard to conservation of judicial resources, and comprehensive disposition of litigation, does not counsel rigid mechanical solution of such problems. The factors relevant to wise administration here are equitable in nature. Necessarily, an ample degree of discretion appropriate for disciplined and experienced judges, must be left to the lower courts."

See also, *Chicago Pneumatic Tool Co.* v. *Hughes Tool Co.*, 180 F. 2d 97 (10th Cir., 1950); *Milwaukee Gas Spec. Co.* v. *Mercoid Corp.*, 104 F. 2d 589 (7th Cir., 1939); *Cold Metal Products Co.* v. *Crucible Steel Co.*, 126 F. Supp. 546 (D. N. J., 1954); *Yocum* v. *Philadelphia Arena, Inc.*, 96 F. Supp. 329 (E. D. Pa., 1951); *Independent Pneumatic Tool Co.* v. *Chicago Pneumatic Tool Co.*, 74 F. Supp. 502 (N. D. Ill. E. D., 1947); *F. X. Hopper Co. Inc.* v. *Samuel M. Langston Co.*, 56 F. Supp. 577 (D. N. J., 1944); *Godfrey L. Cabot, Inc.* v. *Binney & Smith Co.*, 46 F. Supp. 346 (D. N. J., 1942).

The District Court's injunction against continuance of the Iowa action applied a judicial remedy now established in patent anti-trust actions. Landmark cases in which the patentee has been enjoined from enforcing patent rights misused under the anti-trust laws are: *Hartford-Empire Co.* v. *United States*, 323 U. S. 386, 418-419 (1947); *United States* v. *National Lead Co.*, 63 F. Supp. 513, 534 (S. D. N. Y., 1945), affirmed 332 U. S. 319 (1947). In both the *Hartford* and *National Lead* cases defendant-licensors were enjoined from bringing any infringement suits for royalties under their misused patents for any period of time prior to the entry of the decree. This Court has noted that the violations of law in the *National Lead* case "were as offensive to the prohibitions of the Sherman Act as those proven in the present case" 340 U. S. at 93-94. Recent lower Court decisions have applied the teaching of these cases so that it is now often provided in anti-trust decrees that patentees misusing their patents under the anti-trust laws are enjoined from asserting infringement or other rights under their patents until the effects of their violations can be shown to have been fully dissipated. *Kobe, Inc.* v. *Dempsey Pump Co.*, 97 F. Supp. 342 (N. D. Okla., 1951), affirmed 198 F. 2d 416 (10th Cir., 1952), cert. denied 344 U. S. 837 (1952); *Apex Electrical Mfg. Co.*

v. *Altorfer Bros. Co.*, 130 F. Supp. 152 (S. D. Ill. N. D., 1955); *United States* v. *Vehicular Parking, Ltd.*, 56 F. Supp. 297, 61 F. Supp. 656 (D. Del.).

C. The Modification of the District Court's Decree Was Within Its Discretion; It Had Inherent Power to Modify Its Decree.

The action of the District Court fell well within the scope of its discretionary powers. Litigation like everything else must have an end, and this case has already been before this Court on three occasions.[5] The District Court had a broad power to modify and reshape its injunction. In *Chrysler Corp.* v. *United States*, 316 U. S. 556 (1942), Mr. Justice Byrnes stated:

> "It is clear that under paragraph 14 of the original decree the District Court had jurisdiction to modify it. The question is whether the change in date in paragraph 12 amounted to an abuse of this power to modify. We think that the test to be applied in answering this question is whether the change served to effectuate or to thwart the basic purpose of the original consent decree. *United States* v. *Swift & Co.*, 286 U. S. 106."

In *United States* v. *Crescent Amusement Co.*, 323 U. S. 173 (1944), Mr. Justice Douglas said, at p. 187:

> "* * * where the findings of violations are sustained, we will not direct a recasting of the decree except on a showing of abuse of discretion."

In *Associated Press* v. *United States*, 326 U. S. 1 (1945), Mr. Justice Black, writing for the Court, at p. 22, said:

> "The fashioning of a decree in an antitrust case in

5. USG has included in its record on appeal almost the entire record of all prior proceedings in this matter as if in an attempt to reargue once again issues long since put to rest.

such way as to prevent future violations and eradicate existing evils, is a matter which rests largely in the discretion of the court."

In *United States* v. *National Lead Co.*, 332 U. S. 319 (1947), Mr. Justice Burton said, at p. 334:

"In our opinion, the provisions of this decree, to a large extent, are matters lying within the discretion of the District Court as a court of equity whose duty it was to make the remedy as effective as possible. We believe that the District Court has not exceeded its discretion in the provisions of this decree."

In *International Salt Co.* v. *United States*, 332 U. S. 392 (1947), Mr. Justice Jackson said, at pp. 400-401:

"The framing of decrees should take place in the District rather than in Appellate Courts. They are invested with large discretion to model their judgments to fit the exigencies of the particular case."

The most recent pronouncement of this Court on the scope of review of anti-trust decrees is found in *Besser Mfg. Co.* v. *United States*, 343 U. S. 444 (1952); in that case the Court said:

"In framing relief in anti-trust cases, a range of discretion rests with the trial judge. *United States* v. *National Lead Co., supra,* at 338; *International Salt Co.* v. *United States, supra,* at 400-401, 405; *United States* v. *Crescent Amusement Co.*, 323 U. S. 173, 185. We can see no abuse of discretion here."

It is noteworthy that the language of this Court in the *Gypsum* case in 1950, 340 U. S. 76 at p. 89, upon which USG relies (J. S. 25) and which tends to delimit the trial court's discretionary power in anti-trust decrees[6] is not

6. In *Gypsum* this Court, however said:
"The determination of the scope of the decree to accomplish its purpose is peculiarly the responsibility of the trial court. Its opportunity to know the record and to appraise the need for prohibitions or affirmative actions normally exceeds that of any reviewing court. This has been repeatedly recognized by us." (340 U. S. at p. 89.)

referred to in the subsequent *Besser* decision which reasserts the predominant thinking of this Court.

Certainly this Court has left open some area for the operation of a trial court's discretion in framing relief in antitrust cases. We submit that, as hereinafter shown, the modification by the District Court met this Court's test of proper exercise of discretion which is "whether the change served to effectuate • • • the basic purpose of the original • • • decree." *Chrysler Corporation* v. *U. S.*, 316 U. S. 556; *United States* v. *Swift & Co.*, 286 U. S. 106 (1932).

After extensive arguments and briefing the lower Court handed down its opinion (J. S. A. 13-57), its findings of fact (J. S. A. 63-75), conclusions of law (J. S. A. 75-79) and entered its decree (J. S. A. 80-81) in which it determined that to effectuate its basic purpose the original decree must be modified.

In *United States* v. *Swift & Co.*, 286 U. S. 106, 114, this Court made it clear that the power to modify an antitrust decree inheres in a court of equity. In that case, this Court said:

> "Power to modify the decree was reserved by its very terms • • •. If the reservation had been omitted, power there still would be by force of principles inherent in the jurisdiction of the chancery."

In the present proceeding, as in the *Swift* case, the District Court, in Article X of its Final Decree, explicitly reserved jurisdiction to deal with matters such as those raised by Certain-teed's petition.

D. Modification of the District Court's Decree Effectuated the Basic Purpose Thereof.

This power to modify a decree is not, to be sure, unlimited. *Chrysler Corporation* v. *United States,* 316 U. S. 556, 562. In the present proceeding the Court's exercise of its power to modify was clearly designed to effectuate the basic purpose of the original decree and consequently ought not to be reviewed. This Court had made it clear that the purpose of the decree which it directed the District Court to enter was

> "so far as practicable, [to] cure the ill effects of the illegal conduct, and assure the public freedom from its continuance * * * The conspirators should, so far as practicable, be denied future benefits from their forbidden conduct" 340 U. S. at pp. 88-89.

Modification of the decree specifically enjoining USG from enforcing its misused patents for the period prior to the entry of the final decree did no more than to apply and implement that purpose. See *Morton Salt* v. *Suppiger,* 314 U. S. 488, 491; *Westinghouse Electric Corp.* v. *Bulldog Electric Products Co.,* 179 F. 2d 139 (4th Cir. 1950); *McCullough* v. *Kammerer Corp.,* 166 F. 2d 759 (9th Cir. 1948), *cert. denied,* 335 U. S. 813 (1948); *Campbell* v. *Mueller,* 159 F. 2d 803 (6th Cir. 1947); *National Lockwasher Co.* v. *George K. Garrett Co.,* 137 F. 2d 255 (3d Cir. 1943).

The modification merely made explicit that which necessarily must have been implied if Article IV of the decree declaring the patent license agreements nullities were to have purpose or effect, and it aborted USG's attempt to subvert the decree, both directly through the counts on the illegal agreements, and, elsewhere[7] as the District

7. On the *indebitatus assumpsit* count.

Court found, through "a left-handed, indirect method." (J. S. A. 78.)

Even greater reason attaches for honoring the discretion of the trial court in modification of a litigated decree than in the "molding" of the initial decree, which this Court has called "this most significant phase of the case." *United States* v. *U. S. Gypsum Co.*, 340 U. S. 78, 89. Inappropriate provisions in the initial decree may defeat the great objective of the antitrust litigation "to restore future freedom of trade" (*Id.*). A modification of the decree designed to "effectuate" rather than "to thwart the basic purpose" of the original decree (see *Chrysler Corp.* v. *United States*, 316 U. S. 556, 562) is an action which cannot defeat the public interest in the litigation, and as to its need the trial court with intimate knowledge of the record will have particular competence. The lower court does no more than mold its decree to accommodate a change in circumstances.

As this Court recently said, "necessarily an ample degree of discretion appropriate for disciplined and experienced judges must be left to the lower Courts." *Kerotest Manufacturing Co.* v. *C-O-Two Fire Equipment Co.*, 342 U. S. 180, 183-184. If every review of modification of an antitrust decree designed to implement its purpose were to be heard by this Court, there would be a torrent of unnecessary and stultifying appellate activity. Importance of the outcome merely to the parties should not be enough to activate this Court. *Cf. Layne & Bowler Corp.* v. *Western Well Works Inc.*, 261 U. S. 387, 392-3 (1923); *United States* v. *Rimer*, 220 U. S. 547, 548 (1911); *Murdock* v. *Memphis*, 20 Wall. (87 U. S.) 590, 628 (1875). And *cf.* Mr. Justice Frankfurter concurring in *Stainback* v. *Mo Hock Ke Lok Po Corp.*, 336 U. S. 368, 385 (1949); *Wilkerson* v. *McCarthy*, 336 U. S. 53, 66-67 (1949).

USG suggests that substantial questions exist because:

(1) the District Court erroneously found continued patent misuse through misapplication of the teaching of *Hartford-Empire Co., et al.* v. *United States,* 323 U. S. 386, 324 U. S. 570 (J. S. 19);

(2) the District Court found patent misuse in USG's effort to enforce the royalty provisions of the voided patent license agreements in counts of its suits against its licensees when the Court could have disregarded these deliberately and explicitly pleaded counts by application of Rule 8 of the Federal Rules of Civil Procedure (J. S. 22);

(3) the District Court's finding of continued patent misuse conflicts with Title 35, U. S. C. Sect. 271 (d) (J. S. 24); and

(4) the District Court's exercise of discretion is reviewable by this Court (J. S. 25).

USG also asserts without discussion that the decree of the District Court is inappropriate "for disposing of the misuse and purge issues as a matter of law and without the taking of any evidence" (J. S. 25-26). We consider first the issues of purge and misuse and thereafter discuss the other questions raised by appellant.

E. The District Court Properly Held That USG Had Not Purged the Misuse of Its Patents.

Certain-teed did not pay royalties for any part of the period from April 1, 1948 (because of this Court's decision on March 8, 1948) until May 15, 1951, the date of the final decree of the District Court. The District Court found that USG had not purged its misuse of patents (J. S. A. 70). The pertinent question, therefore, on Certain-teed's petition, is whether the trial Court as a matter of law could have decided the question of purge for this period without the taking of evidence relating thereto. The District Court had before it a claim of purge taking place

during a twenty-five month span while the proceedings were mostly either before this Court on appeal or the District Court for reconsideration. It would have been exceedingly difficult for USG to have taken the steps required to purge itself until the District Court issued its final decree adjudicating the illegality of the conduct and providing for the injunctive relief necessary to cure it. Further, since the decree of November 7, 1949 was greatly enlarged as a result of the decision of the Supreme Court on November 27, 1950 (340 U. S. 76), had a purge of the conduct proscribed by the earlier decree taken place it necessarily would have fallen vastly short of satisfaction of the May 15, 1951 decree.

The District Court, upon consideration of USG's five factual claims of purge, reached the conclusion that the effects of the patent misuse remained undissipated, finding that "neither taken separately nor cummulatively do any or all of these matters amount to evidence of purge by USG of its misuse of its patents" (J. S. A. 72). The course of conduct of USG as "clearly shown by the proceedings of record in the Anti-trust case and in these suits by USG (J. S. A. 78) constituted the "practical and legal situation in this case" which required modification of the decree and it was only alternatively because of the "teaching in the *Hartford-Empire* case" that the District Court ordered modification of the final decree (J. S. A. 78-79).

USG advances no cogent reason why this Court should review the District Court's finding that USG's factual claims cannot amount to a purge in law. A glance at this Court's decision at 333 U. S. 364 shows that USG's wrong was not limited to illegal price-fixing, but as the Court below found, that restraint was "inseparably joined with the other provisions found violative of the Act." Consequently, with reference to its first claimed act of purge—the tentative

notice sent to its licensees while litigation was pending that USG would suspend price fixing "until we decide again to exercise our right to do so" (J. S. A. 70)—cannot amount to more than a grudging attempt to cure but part of its illegal activity.[8] Secondly, a claim of purge was bottomed on USG's asserted acquiescence in its licensees' cessation of royalty payments. The suits to recover royalties under the agreement, and this appeal, show that the acquiescence, whatever operative legal meaning it might have had, never took place, or, having taken place, was abandoned in a deliberate effort to flout the decree (J. S. A. 54-55). A third claim was based on USG's proffer of license agreements in 1949 in new form. Since these agreements were not intended to become effective until entry of the District Court's decree, and differed from what this Court approved (340 U. S. 76), the proffer could have no effect until May 15, 1951 and cannot here be material (J. S. A. 71). Fourthly, a claim was made that USG determined it would not appeal the District Court's decision unless the Government appealed. USG in fact appealed on very different questions from those posed by the Government, and consequently this subjective nicety can have had no objective effect (*Cf.* 339 U. S. 959 with 339 U. S. 960). Finally, and curiously, USG relies in support of purge upon the Supreme Court's in-

8. The District Court said of this attempt:

"The first of these five is that USG did not fix prices, under its licenses, after July 8, 1941. This is true. However, its effect is dissipated by two considerations: first, the notices that minimum prices bulletins would be suspended included the statement that such suspension would continue 'until we decide again to exercise our right to do so';[16] and, second, this price fixing provision is inseparably joined with the other provisions found violative of the Act (*Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394; *MacGregor* v. *Westinghouse Elec. & Mfg. Co.*, 329 U. S. 402)." (J. S. A. 54.)

16. The "potential power" (*Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436, 458) remained.

junction of May 29, 1950 against its "enforcing in any manner whatsoever" the price provisions of the illegal license agreements which USG had at least tentatively abandoned (339 U. S. 960). The patent license agreements were illegal in their entirety[9] and had been stricken in their entirety before that decision of this Court, as they were again in the final decree which followed, but in defiance of these rulings USG launched the suits based on the agreements which were enjoined. The District Court found that "the USG suits now pending show conclusively * * * that even now it is striving to enforce the royalty provisions of the illegal patent license agreements." (J. S. A. 72). Certainly the Supreme Court's opinion of May 29, 1950 is the basis for a finding of violation, not support for a claim of purge.

On the very claims made there was, therefore, no need for the taking of testimony, since the maximum claimed if proved would have been insufficient in law to support the burden of proof which fell upon USG (*B.B. Chemical Co.* v. *Ellis*, 314 U. S. 495, 498; See also *Park-In Theatres* v. *Paramount-Richards Theatres*, 81 F. Supp. 466, *United States* v. *Vehicular Parking, Ltd.*, 56 F. Supp. 297 and 61 F. Supp. 656).

F. The Teaching of the Hartford-Empire Case Was a Proper Precedent for the District Court's Decree.

It has already been noted that the District Court's reliance on "the teaching in the *Hartford-Empire* case" was but an alternative base for its decision bottomed on the "practical and legal situation in the case." (J. S. A. 78-79).

9. It was settled law in this Court before the decree that unlawful price-fixing provisions in patent license agreements are not severable from the license provisions for the payment of royalties. *Katzinger Co.* v. *Chicago Mfg. Co.*, 329 U. S. 394, 401; *MacGregor* v. *Westinghouse Co.*, 329 U. S. 402, 407.

That decision of this Court, however, offered a solid precedent for the District Court's decree and its application to the facts at bar presents no important or substantial question. In the first *Hartford-Empire* opinion, 323 U. S. 386, this Court was faced for the first time with the problem of defining appropriate remedies for violations of the antitrust laws under an analogous factual and legal situation where there existed broad industry-wide restraints and monopolization through patent misuse. It provided for compulsory licensing at reasonable royalties for the post-decree period and an injunction against the assertion of infringement claims for the pre-decree period. The same remedy was adopted on similar facts in the *National Lead* case, 332 U. S. 319, affirming 63 F. Supp. 513. The basic teaching of *Hartford-Empire,* and obviously that on which the lower Court relied in the present proceeding, was that pre-decree infringement claims could be forbidden as well as compulsory licensing granted where patents have been misused under the antitrust law. Some of Hartford's licensees, however, paid their royalties during the period between the initial and final decrees to Hartford's receiver, who had been appointed, *inter alia,* "to prevent any further abuse of the patent privileges of Hartford", 46 F. Supp. 541, 620. These licensees who had paid royalties were, of course, not infringers during this period of time. Consequently the holding of the Supreme Court as to the disposition of the funds paid in to the receiver in no way constitutes a precedent for the disposition of the claims in the present proceeding and could not have furnished the "teaching" of the case, *i. e.,* compulsory licensing for the post-decree period and injunction against infringement claims for the pre-decree period, referred to by the lower Court (J. S. 20-21).

The treatment of ear-marked royalties in *Hartford-Empire* in no way subtracted from the precedent value of

that decision as to the propriety of enjoining actions for pre-decree infringement, and inaccurate descriptions of the meaning of that case (*cf.* J. S. 20-21 with the supporting reference there given: 323 U. S. 409, 415) or of the decision of the Court below (*cf.* J. S. 19 with J. S. A. 48-50) cannot create a substantial question.

G. Rule 8 of the Rules of Civil Procedure Has No Application to the Questions in Issue.

(a) The United States Did Not Take the Position That It Did Not Oppose USG's Suits Against Its Licensees.

(b) The Quantum Meruit Counts in the USG Suits Cannot Be Sustained.

USG's second claim to a pending substantial question is based upon an asserted failure of the lower Court to apply Rule 8 of the Rules of Civil Procedure in determining the meaning of USG's pleadings in its suits against the co-defendants (J. S. 22-24).

It is claimed by USG (J.S. 4) that "the Department of Justice does not oppose the suits filed by USG to recover reasonable compensation for use made by others of USG patents prior to entry of the final decree." Subsequently (J.S. 15), USG paraphrased the petition of the United States, stating that the petition prayed that the District Court hold as barred any recovery by USG in its compensation suits that was based on the license agreements that were judged illegal, null and void by Article IV of the Final Decree of May 15, 1951; that, however, the petition expressly stated that insofar as any compensation suits by USG asserted claims for the reasonable value of the use of USG patents or for due compensation for the infringement of such patents, the United States took no position whether such alternative claims

were barred by the Final Decree of May 15, 1951, or whether the District Court should enter an order enjoining USG from prosecuting such alternative claims.

Based on the foregoing statements of the Government's position, USG argues (J.S.A. 23 *et seq.*) that the Government has implicitly acknowledged the correctness of USG's contention that under the Rules of Civil Procedure in District Courts of the United States it was entitled to make its alternative claims for the reasonable value of the use of its patents or for compensation for the infringement thereof. We submit that neither the statement nor the contention of USG based thereon is correct. The Government at no time took the position that it did not oppose suits by USG to recover reasonable compensation for the use made of its patents prior to the entry of the final decree. In its petition, the Government prayed:

> "I. That this Court enjoin U.S.G. from asserting any claim, and from instituting, threatening to institute, or maintaining any action, *based in whole or in part* on any of the license agreements adjudged illegal, null and void by the final decree of this Court entered on May 15, 1951, or on any provision thereof." (Emphasis added.)

It was determined by the District Court that, under all of the facts and circumstances, to allow USG to recover on its alternative claims the exact amount claimed by it on the license agreements would be to render nugatory the provisions of the Decree of May 15, 1951, declaring the license agreements to be null and void; that, in effect, the alternative claims were only an indirect attempt to recover that which the final decree intended to prohibit.

The lower Court found that the counts on the voided license agreements violated the decree (J.S.A. 78) and that the counts *dehors* the agreement, were but an indirect

way of attempting to force a recovery which it was the purpose of the final decree to prevent (J.S.A. 78).

The propriety of modification of the decree does not stand or fall upon the District Court's interpretation of USG's pleadings. USG urges that because of Rule 8 of the Rules of Civil Procedure the District Court should have disregarded its pleading on the contracts voided by the antitrust decree. In effect USG claims that the deliberate acts of a sophisticated pleader ought to be disregarded. Nothing in Rule 8 which allows alternative claims for relief gives support to this startling suggestion.

Were there substance to the contention that the pleading should be disregarded, since the "final theory of recovery is for the Court rather than the pleader" (J.S. 23) it would prove too much and could only defeat USG's afterthought that the action sounds in theory other than contract (J.S. 24). All the counts were for sums computed on the contract base for royalties. (See p. 5, *supra.*) The *indebitatus assumpsit* count was found by the Court below to be "based on a pleaded express contract" (J.S.A. 73). The remedies available for patent infringement are wholly statutory[10] and have no common law basis. Consequently, *quantum meruit* and quasi-contractual actions cannot lie. *Gayler* v. *Wilder*, 51 U.S. 476, 493 (1850); *Bellavance* v. *Plastic-Craft Novelty Co.*, 30 F. Supp. 37 (D.C. Mass. 1939); *In re Paramount Publix Corp.*, 8 F. Supp. 644 (S.D.N.Y. 1934); *Schillinger* v. *United States*, 155 U. S. 163 (1894). In addition a quantum merit recovery is unavailable here because a transaction wholly illegal will not support such a claim; nor will this Court aid a plain-

10. A patentee may sue for damages for infringement at law or seek an injunction, accounting and damages in equity. 35 U. S. C. Sect. 281, 283, 284; *Ryan Distributing Corp.* v. *Coley*, 51 F. Supp. 377 (E. D. Pa. 1943), *aff'd* 147 F. 2d 138 (C. A. 3 1945), *cert. denied* 325 U. S. 859.

tiff who must prove a violation of law to prove his case. *Bruce's Juices* v. *American Can Co.*, 330 U. S. 743, 748, 756 (1947). By mechanical elimination the Court below in determining the theory of the cause of action would have been left with three counts based on the contract and one for infringement. Under such circumstances it would have been an arbitrary, if not a fatuous, choice had the lower Court found that USG had pleaded merely an action for infringement.

H. Codification of the Patent Laws Does Not Support the Suits on the Void License Agreements.

USG also asserts (J.S. 24-25) that the trial Court's conclusion that a continuing misuse of patents during the pre-decree period conflicts with the recent codification of the patent laws, Title 35, U.S.C. Sect. 271 (d). It is there provided:

> "No patent owner *otherwise entitled to relief for infringement* • • • shall be denied relief or deemed guilty of misuse of illegal extension of the patent rights by reason of his having • • • (3) sought to enforce his patent rights against infringement or contributory infringement."[11] (Emphasis added.)

The argument is that since the mere bringing of a patent infringement suit is not a misuse, *a fortiori*, a suit on a voided license agreement is not itself a misuse (J.S. 24). This novel contention was advanced for the first time on USG's motion for a new trial and was disposed of by the trial Court's memorandum opinion of June 30, 1955 (J.S.A. 92-94). The Court, speaking of the statute, said:

> "The vital words for us • • • are 'otherwise entitled.' Patents are classical instruments in conspiracies and

11. This codification became effective January 1, 1953. Thereafter USG sued on its illegal agreements and for infringement.

combinations to violate the Sherman Act. Can it be where a designated misuse of patents—here patent license agreements—has been adjudged to be violative of that act that thereafter the patentee-licensor is absolutely protected by paragraph (d) (3) from the defense of misuse in recovering upon its adjudged unlawful agreements? Can it be possible that the Congress intended, by paragraph (d), to give to a patentee a protection superior to the broad public policy of the Sherman Act?"[12]

It answered its own questions by stating:

"We cannot believe that paragraph (d) was intended to or can properly be construed as nullifying the power of this Court to effectuate the purposes of an antitrust decree. In short, USG is not 'otherwise entitled' to come within paragraph (d) (3)."

No extended discussion is needed to demonstrate that Title 35, U.S.C. Sec. 271 (d) is inapposite to the present proceeding. From the face of the statute it is plain that the statute merely lays down the principle that a patentee *otherwise entitled to relief* is not guilty of misuse by merely enforcing his patent rights against *infringement or contributory infringement*. That, of course, is not what USG did in the proceedings brought against its licensees. Its infringement claim constituted only one of five or six counts. The statute is limited solely to enforcing "rights against infringement." A suit on a license agreement is on a contract; a suit for infringement is for a tort.[13] It was the suit on the voided license agreement which the

12. Inaccurately quoted by appellant at J. S. A. 94.

13. Compare *Carbice Corp.* v. *American Patent Development Corp.*, 283 U. S. 27, 33 (1931); *Faulkner* v. *Gibbs*, 199 F. 2d 635, 638 (9th Cir. 1952); *Lincoln Engineering Co.* v. *Stewart-Warner Corp.*, 91 F. 2d 757, 763 (7th Cir. 1937) *with Eclipse Bicycle Co.* v. *Farrow*, 199 U. S. 581, 586-88 (1905); *Sbicca-Del Mac, Inc.* v. *Milius Shoe Co.*, 145 F. 2d 389 (8th Cir. 1944); *Saco-Lowell Shops* v. *Reynolds*, 141 F. 2d 587, 596 (4th Cir. 1944).

lower Court primarily relied upon as showing continued misuse and consequently USG can get no comfort from the statute. It is further apparent from the fact of the statute that to have access to its provisions the patent owner must be "*otherwise entitled* to relief for infringement." As we have seen this Court has held that the patentee is not so entitled during a period while his patents are being used as instruments for monopoly and prior to purge, and consequently the statute cannot protect the infringement count. *E.g. Hartford-Empire Co.* v. *United States,* 323 U.S. 386, 419; *Mercoid Corp.* v. *Mid-Continent Investment Co,* 320 U.S. 661, 664-665 (1944); *B.B. Chemical* v. *Ellis,* 314 U.S. 495, 497-98 (1942).

Nowhere in its Jurisdictional Statement does USG attempt to make a showing that its patent misuse has been terminated nor in the Court below did USG attempt to meet its burden to introduce facts which would operate in law as a purge. Consequently, the District Court, using its "more flexible procedure" for the settlement of a decree (340 U.S. 76) acted well within the scope of its discretion in implementing the purpose of the Final Decree of May 15, 1951 by barring USG from recovery on its misused patents. *Besser Mfg. Co.* v. *United States,* 343 U.S. 444, 449 (1952); *International Salt Co.* v. *United States,* 332 U.S. 392, 400, 401 (1947); *United States* v. *National Lead Co.,* 332 U.S. 319, 334 (1947); *Associated Press* v. *United States,* 326 U.S. 1, 22 (1945); *United States* v. *Crescent Amusement Co.,* 323 U.S. 173, 185-187 (1944); *Chrysler Corp.* v. *United States,* 316 U.S. 556, 562 (1942).

Conclusion.

We respectfully submit, therefore, that it is manifest that USG presents no substantial question for the decision of this Court, and that the judgment and decree of the District Court should be affirmed.

HERBERT W. HIRSH,
NORMAN A. MILLER,
Counsel for Certain-teed Products Corporation.

Of Counsel:
GANSON PURCELL.

November, 1955.

FILED
DEC 12 19
HAROLD B. WILLEY

IN THE

Supreme Court of the United States

OCTOBER TERM, 1955.

No. 485 //

UNITED STATES GYPSUM COMPANY,
Appellant,

vs.

NATIONAL GYPSUM COMPANY, ET AL.,
Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA.

BRIEF IN OPPOSITION TO MOTIONS TO AFFIRM.

BRUCE BROMLEY,
CRANSTON SPRAY,
ROBERT C. KECK,
HUGH LYNCH, JR.,
Attorneys for Defendant, United States Gypsum Company.

CRAVATH, SWAINE & MOORE,
15 Broad Street,
New York 5, New York,

MACLEISH, SPRAY, PRICE & UNDERWOOD,
134 South LaSalle Street,
Chicago 3, Illinois,

MACLEAY, LYNCH & MACDONALD,
1625 K. Street, N. W.,
Washington 6, D. C.,
Of Counsel.

INDEX.

PAGE

I. The Contentions That the Questions Presented Are So Unsubstantial as Not to Warrant Further Consideration by This Court Are Without Merit..... 2-9
   A. Hartford-Empire 2
   B. Federal Rules of Civil Procedure..... 4
   C. Title 35, U. S. C. Sec. 271(d)..... 6
   D. Ruling on Misuse and Purge Without Evidence 7

II. The Reasons Urged for Affirmance Are Untenable. 9-14
   A. Basic Purposes of Decree of May 15, 1951... 9
   B. Appropriate Remedy 13
   C. Trial Court's Discretion..... 14

Cases Cited.

Besser Manufacturing Co. v. United States, 343 U. S. 444 (1952) 14

Federal Communications Commission v. RCA Communications, Inc., 346 U. S. 86 (1953) 3, 4

Hartford-Empire Co. v. United States, 323 U. S. 386, 409 (1945) 2, 3, 4, 11, 13

Henry v. A. B. Dick Company, 224 U. S. 1 (1912)..... 5

Hughes v. United States, 342 U. S. 353 (1952)..... 10

United States v. International Harvester Co., 274 U. S. 693 (1929) 10

United States v. United States Gypsum Company, 340 U. S. 76 (1950)..... 14

Walsh v. Albert Wahle Co., Inc., 25 F. 2d 350 (D. C. E. D. N. Y. 1928)..... 5

Statutes and Rules Cited.

Title 35 U. S. C. Sec. 271(d) 6
Federal Rules of Civil Procedure, Rule 8 ..... 4, 6
Federal Rules of Civil Procedure, Rule 52(a) 4
Revised Rules of Supreme Court of the United States (Rule 16.3) 1

Miscellaneous Citations.

Hartford-Empire Decree filed October 31, 1945 (Par. 16(c)) Civil Action No. 4426, U. S. Dist. Ct. N. D. Ohio, W. D. 3
Final Report and Account of Operations of Receiver, filed December 20, 1945, Civil Action No. 4426, U. S. Dist. Ct., N. D. Ohio, W. D. 3
Transcript Preliminary Hearing June 9, 1953 8
United States Gypsum Company Brief, This Court, October 1950 Term, Case No. 30 14
Yale Law Journal, Vol. XIX, p. 231, Waiver of Tort and Suit in Assumpsit 5

IN THE

Supreme Court of the United States

OCTOBER TERM, 1955.

No. 485.

UNITED STATES GYPSUM COMPANY,

Appellant,

vs.

NATIONAL GYPSUM COMPANY, ET AL.,

Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA.

BRIEF IN OPPOSITION TO MOTIONS TO AFFIRM.

Pursuant to Rule 16.3 of this Court, appellant, United States Gypsum Company (USG), files this brief opposing the motions to affirm which have been filed herein.*

---

* Four corporate appellees have filed motions to affirm: National Gypsum Company (National), Certain-teed Products Corporation (Certain-teed), Newark Plaster Company (Newark) and Ebsary Gypsum Company, Inc. (Ebsary). "Appellees", as used in this brief, shall mean the four appellees filing these motions. Reference to National's and Certain-teed's motions will be "Natl." and "Cert.", respectively, followed by the appropriate page number. Newark's and Ebsary's joint motion merely adopts the argument in National's motion and will not be further referred to. For convenience, appellant's Jurisdictional Statement will be referred to as "J.S." and the Jurisdictional Statement Appendix as "J.S.A."

I.

THE CONTENTIONS THAT THE QUESTIONS PRESENTED ARE SO UNSUBSTANTIAL AS NOT TO WARRANT FURTHER CONSIDERATION BY THIS COURT ARE WITHOUT MERIT.

A. Hartford-Empire.

Nothing said in the motions to affirm detracts in any way from appellant's point (J. S. 20-22) that a substantial question exists in the conflict between the decree below and this Court's ruling in *Hartford-Empire.*•

It is incorrect to say, as appellees do, that in *Hartford-Empire* this Court provided for an injunction against infringement claims for the pre-decree period (Natl. 17, Cert. 20). A reference to the citation given (323 U. S. at p. 419) will show that what this Court said was that an injunction should go against the further prosecution of infringement suits "pending at the date this suit was brought."

The conspiracy of *Hartford-Empire* was to monopolize the glass industry by combining most of the patents on glass and by inviting or forcing into the conspiracy, by harassing infringement litigation, nearly all the manufacturers of glass. Harassing patent suits of that type have no counterpart in this case. There were no USG infringement suits pending when the United States brought its antitrust action against the gypsum industry in 1940. Appellees have not urged that the suits brought by USG from 1917 to 1928, which originally established the validity and infringement of USG's patents, were harassing suits. The situation here is exactly like that of Hartford-Empire's co-defendant licensees who were required to pay for the use they made of the Hartford-Empire patents. The *Hart-*

• *Hartford-Empire Co.* v. *United States*, 323 U. S. 386 (1945); 324 U. S. 570 (1945).

ford-Empire final decree, in enjoining infringement suits for prior use of patents, expressly excepted therefrom any such attempted recovery "against any other corporate defendant."*

It can make no difference that the defendant licensees in *Hartford-Empire* had paid royalties and were not infringers (Natl. 17-18, Cert. 20-21). The royalties collected were earmarked and could have been returned easily had this Court determined that because of prior misuse Hartford was not to be paid for use of its patents *pendente lite*. But there a procedure was approved which permitted Hartford-Empire to obtain in excess of $7,000,000** of the royalties paid the Receiver, whereas in this case the District Court has denied USG the right to seek compensation for the actual use of its patents during a similar period.

The contention that the "teaching in the *Hartford-Empire* case" was but an alternative base, since the District Court's decision was also bottomed on the "practical and legal situation in the case," likewise is without merit (Natl. 17, Cert. 19). A reading of the court's opinion clearly shows that the "practical and legal situation" which the court found in this case was premised upon and dictated by the District Court's misunderstanding of the teaching in *Hartford-Empire* (J. S. A. 48-51).

Furthermore, neither in the findings of the District Court nor in its decisions are the facts that constitute that allegedly justifying "practical and legal situation" given definition or precision. Recently in *Federal Communications Commission* v. *RCA Communications, Inc.*, 346 U. S. 86 (1953), this Court ordered a case remanded to the Fed-

* Par. 16(c) of *Hartford-Empire* Final Decree filed October 31, 1945 in Civil Action No. 4426, U. S. Dist. Ct. N. D. Ohio, W. D.

** Final Report and Account of Operations of Receiver of Hartford-Empire Company (p. 5) filed 12/20/45 in Civil Action No. 4426, U. S. Dist. Ct., N. D. Ohio, W. D.

eral Communications Commission because it had not "sufficiently laid bare its mind to enable us [the Supreme Court] to perform our reviewing function." (346 U. S. at p. 95). Although the Commission, in its decision, had contended that beneficial effects would flow from its action, it had done so only "in an abstract sterile way" (*Ibid.* at p. 94). If review by this Court of the discretion of an expert commission requires that the agency to some extent lay bare its mind, a no less considerable *quantum* of disclosure would seem to be required of district courts (Rule 52(a), Federal Rules of Civil Procedure).

The failure of the court below to relate its conclusion to the facts, practical or otherwise, in this case is simply explained. The events that underlie the final decree of May 15, 1951, and the appealed-from decree of December 9, 1954, do not support the conclusion (J. S. 21-22). Actually the practical and legal situation in this case argues for reversal, not affirmance, of the judgment below. Proscription by the District Court of the USG compensation suits would seem to be relief, therefore, of a kind that this Court has said may not be granted. It is, in short, an illegal penalty, imposed "in the guise of preventing future violations" of the Sherman Act. (*Hartford-Empire Co.* v. *United States*, 323 U. S. 386, 409.)

B. Federal Rules of Civil Procedure.

In referring to the substantial question involving the Federal Rules of Civil Procedure, particularly Rule 8 thereof, appellees adopt an error of the District Court and argue that the counts of the pending suits, other than those based on the voided license agreements, were but an indirect way of attempting to force recovery which it was the purpose of the final decree to prevent (Natl. 18-19, Cert. 22-23). USG's suits were solely to recover compen-

sation for the actual use of its patents, on whatever theory the court might find appropriate. It is incorrect to say that the suits were for royalties unpaid under the voided license agreements and that all counts were for sums computed on the contract base for royalties (Natl. 4-5, 19; Cert. 5, 23). The recovery was for actual use of the patents. The reasonable value of that use was the royalty rate established by the parties themselves, not only in the voided contracts but also in the license contracts entered into under the May 15, 1951 decree, where the applicant licensees could have requested the court to establish reasonable royalties had they thought the proffered rate was unreasonable.

The claim that remedies available for patent infringement are wholly statutory and have no common law basis, and that *quantum meruit* cannot lie for infringement is irrelevant (Natl. 19, Cert. 23). In its pending suits USG does not seek a *quantum meruit* recovery for infringement of its patents, but rather for a use of its patents under circumstances from which the law would imply a promise to pay.* A patent is a property right. At common law a promise to pay is implied by law where the use of another's property is made under circumstances warranting it. The District Court ruled that the *quantum meruit* counts are "proper and prosecution thereof should not be en-

* There is, of course, authority for the proposition that a patentee may waive the tort and sue in assumpsit for the money (*Henry* v. *A. B. Dick Company*, 224 U. S. 1, 14 (1912); *Walsh* v. *Albert Wahle Co. Inc.*, 25 F. 2d 350 (D. C. E. D. N. Y. 1928); Waiver of Tort and Suit in Assumpsit, Yale Law Journal, Vol. XIX, p. 231). In the *A. B. Dick* case the court said (p. 14): "That the patentee may waive the tort and sue upon the broken contract, or in assumpsit, is elementary, * * *", but pointed out that in such a case a Federal court would have no jurisdiction unless diversity of citizenship existed, saying: "This would be so although the damages for a breach would be measured by the loss resulting from the infringement." In each of the USG compensation suits the District Courts, of course, have diversity jurisdiction.

joined" (J. S. A. 51) except for the continued misuse ruling which, we submit, the court erroneously applied.

Appellant does not urge, as appellees suggest, that because of Rule 8 the District Court should have disregarded its pleading on the contracts (Natl. 18, Cert. 23). The District Court's error was in denying to appellant the right given to it under Rule 8 to plead alternative, inconsistent counts so as to set forth its claim in the light of different legal theories, and in ruling that the inclusion of a count on the proscribed agreements barred recovery on other appropriate theories (J. S. 22-24).

C. Title 35, U. S. C. Sec. 271(d).

Appellees misunderstand appellant's point that a substantial question arises in the conflict between the decree of December 9, 1954, and the public policy now conclusively established by the recent codification of the patent laws (Natl. 19-22, Cert. 24-26). They rely on the District Court's reasoning in its memorandum filed June 30, 1955, on the denial of USG's motion for new trial, that it could not be possible that Congress intended by paragraph 271(d) to give a patentee a protection superior to the broad public policy of the Sherman Act, or to nullify the power of a court to effectuate the purposes of an antitrust decree.

No such claim was ever made by appellant. It was never suggested that the statute intended to give immunity to a patentee against operation of the patent misuse doctrine. USG's contention is, rather, that since it is the declared public policy that the mere bringing of a patent infringement suit is not misuse, then *a fortiori* allegations in such a suit of claims on a license agreement (which *inter alia* is a grant of immunity from a suit for infringement) does not and cannot constitute patent misuse (J. S. 24-25).

The appellees also err in adopting the District Court's

conclusion that since USG was not "otherwise entitled to relief" the statute could have no application. Who knows whether or not USG was otherwise entitled to relief? That is an issue in the Federal district courts in Iowa, New Jersey and New York.* Certainly the District Court cannot hold in this proceeding that USG was not "otherwise entitled to relief" without the benefit of any evidence whatsoever as to the pertinent 1948-1951 period.

D. Ruling on Misuse and Purge Without Evidence.

National's motion (p. 22) seeks to justify its free use of USG's patents for a period of almost forty months** by reliance upon the District Court's findings and conclusions to the effect that USG had not purged its misuse of patents during this period. It recognizes that there is a pertinent question as to whether or not the trial court could have decided this question of purge as a matter of law and without the taking of any evidence.

In its argument National follows the erroneous course of the District Court in ignoring the facts that the evidence on which the adjudication of antitrust violation in this case was predicated did not extend beyond the year 1941; that there had been no price fixing under the licenses since July 8, 1941; that the pertinent period involved in USG's pending suits was from February 1, 1948 to May 15, 1951; that the 1953 petitions and USG's answers thereto, as well as USG's pending suits in the Iowa Federal Court, joined issues of fact with respect to misuse and

* The motions inaccurately state that the proceedings in the Iowa court were stayed and that National and Certain-teed "thereafter" petitioned the District Court for relief. The Iowa Federal court would have proceeded with the suits there filed, but for the filing of appellees' petitions in the court below.

** The basis for National's referring to the period from February 1, 1948 to May 15, 1951, as a "twenty-five month span" is not apparent.

purge during the pertinent period—issues as to which no opportunity was ever given for the taking of evidence; that the question of purging of patent misuse necessarily involves a factual inquiry into the circumstances of the particular case and cannot be decided as a matter of law until all of the pertinent facts are known; that USG's contentions with respect to the five facts already of record, was solely to show that there was sufficient evidence in the record, not only to preclude a conclusion against it as a matter of law, but even to resolve the purge issue in its favor; and that USG discussed these five facts with the express reservation that they were "only illustrative and not the only or exclusive facts showing purge", and not as a submission of them as the only evidence that would be offered on an actual trial of the purge issue raised by the 1953 petitions and USG's answers thereto.*

It is said that USG advances no cogent reason why this Court should review the District Court's finding that its factual claims cannot amount to a purge in law (Natl. 23). That is not the question. It is whether or not the record in this case, including the issues joined by the 1953 petitions and answers thereto, permit adjudication, as a matter of law and without the taking of any evidence, of the issues of patent misuse or purge during all or any part of the 1948 to 1951 period here involved (J. S. 4). The doctrine

* The motions chide appellant for not making an offer of proof as to its testimony showing purge. They overlook the fact that the procedure below was intended to present, in the first instance, legal points as to whether or not the court had and should take jurisdiction, and whether or not questions raised by the petitions might be disposed of as a matter of law (Transcript of Preliminary Hearing June 9, 1953, pp. 6, 8, 9, 29-31; National's original brief filed July 31, 1953, which states (pp. 67-68) that if the court cannot hold for National as a matter of law, it "should then proceed to hear evidence" on the question of purge prior to May 15, 1951). On the present state of the proceedings, then, there has been neither an opportunity for introducing evidence or proffering proof, nor any intention to waive the right to introduce evidence.

of patent misuse and purge is of relatively recent development and had its genesis in the decisions of this Court. It is not believed that this Court intended that the doctrine should serve to deprive a patentee of the right to show that patents were not being misused, or that there had been a purge of any possible prior misuse, during a period seven to ten years after the alleged misuse. Clarification of the procedure for determining such issues, as well as the extent of the doctrine, presents a substantial question for this Court's consideration.*

II.

THE REASONS URGED FOR AFFIRMANCE ARE UNTENABLE.

Apparently sensing the weakness of their argument that the questions are not substantial, appellees prematurely argue the correctness of the District Court decision. Although such matters are for a later presentation, appellant nevertheless believes that a brief reply will show that these contentions are also untenable.

A. Basic Purposes of Decree of May 15, 1951.

It is urged that the District Court's action was warranted under the inherent powers of a court of equity to amend a decree to effectuate its basic purposes and under the "broad" reservation of jurisdiction in Article X of the final decree (Natl. 8-9, 13-14; Cert. 11-16). Appellees recognize that any modification of the decree must be within the basic purposes of the decree as originally entered, but con-

* The motions show the same misunderstanding as the District Court had regarding the five purge points already of record which the appellant discussed in the court below. It would not seem appropriate to pursue the argument on these points at this stage of the proceeding. At the proper time appellant will discuss the points in sufficient detail to correct appellees' erroneous presentation of them.

veniently overlook the fact that the District Court ignores this principle by approving an amendment establishing new "rights" in the co-conspirators National, Certainteed, Ebsary and Newark, in disregard of the position of the Government and of the basic purposes of the original decree.*

This being originally a proceeding brought by the Government for alleged Sherman Act violations, and the "heart of the final decree", according to the District Court, being the adjudication in Article III of the decree that the defendant companies had acted in concert in restraint and monopolization of trade in the gypsum board industry in violation of Sections 1 and 2 of the Sherman Act (J. S. A. 44), it is obvious that the basic purposes of the final decree, as in any such antitrust proceeding, were to give the Government adequate relief to prevent agreements or understandings in the future, resulting in Sherman Act violations through license agreements or other acts or courses of action. The provisions of Articles IV, V** and VI of the decree were designed to accomplish that purpose, and no suggestion has been made that those provisions of the decree have in any way failed to do so.

Appellees cannot point to any provision of the final decree of May 15, 1951, other than Article IV, as furnishing any basis for the claim that suits brought by USG were violative of the provisions of that decree. None of the

* A court may not, under the guise of construction or implementation, add new substantive provisions which were omitted or withheld in the first instance (*Hughes* v. *United States*, 342 U. S. 353, 357 (1952); *United States* v. *International Harvester Co.*, 274 U. S. 693, 702-3 (1929)).

** The abstract of Article V in the motions is misleading (Natl. 2-3; Cert. 3). Article V enjoined defendant companies from entering into any agreement or understanding to fix prices, etc. "by patent license agreements or other acts or courses of action," and from engaging in, "pursuant to such an agreement or understanding," any of the acts or practices listed in the motions' footnotes as (b), (c), (d) and (e) (J. S. A. 7).

injunctive provisions in any way prohibited USG from recovering for actual use of its patents, and the compulsory licensing provisions included in the decree assured USG a reasonable compensation for such use (Articles V and VI, J. S. A. 7-10). The District Court conceded that Article IV does not, either expressly or by fair implication, cover the counts in USG's pending suits other than Counts I and II, and that if the other counts are to be enjoined it must be by modification of the decree (J. S. A. 42, 77).

Nor was the amendment to the final decree necessary or appropriate to carry out this Court's direction that the decree should "cure the ill effects of the illegal conduct" and that "the conspirators should, so far as practicable, be denied future benefits from their forbidden conduct" (Natl. 4, 8, 14; Cert. 4, 14). In the first place, such admonitions apply with equal force to the co-defendant licensees as to the licensor. Moreover, the actual use of the patents *pendente lite*, and the payment of a reasonable compensation for such use, have no connection either with curing the ill effects of past illegal conduct or denying future benefit from forbidden conduct, as this Court recognized in *Hartford-Empire* (J. S. 20-22).

The Government, the sole spokesman for the public interest and the only party plaintiff in this case, has significantly stated* that it takes no position as to whether USG's alternative claims for recovery on a *quantum meruit* basis or for infringement are barred by the final decree,

* Appellees criticize appellant's statement of the Government's petition; they quote only the first part of it dealing with Counts I and II of the pending suits, and omit the language regarding the *quantum meruit* and infringement counts (Natl. 6; Cert. 6, 22). The Government's petition refers to the *quantum meruit* and infringement claims as "alternative claims" and avers (p. 3): "With respect to the alternative claims set forth in the aforesaid actions, your petitioner takes no position as to whether such alternative claims are barred by this Court's final decree of May 15, 1951, or as to whether this Court should enter an order enjoining USG from prosecuting such alternative claims."

or as to whether this Court should or should not enter an order enjoining prosecution of such alternative claims. If the Government believed that a modification of the decree to enjoin prosecution of the *quantum meruit* and infringement counts were necessary or appropriate to effectuate the basic purpose of the decree, or to protect the public interest, there is no doubt but that it would have been before the District Court vigorously urging that the decree be so modified.*

Nor can it be successfully claimed that the District Court's action could be justified by the reservation contained in Article X of the decree. That reservation was not a "broad" one, as the appellees contend. In fact, the reservation for making such orders as may be "necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith" is a relatively narrow reservation as a comparison with similar provisions in other antitrust decrees will show.**

---

* Judge Cole's dissent was not, as appellees claim, primarily because the United States can be the sole spokesman for the public interest (Natl. 2, fn.). He dissented from the Findings, Conclusions and Decree entered December 9, 1954, on the ground that the petitions should be dismissed "for lack of jurisdiction" (J. S. A. 79, 81). In his dissenting opinion he states (J. S. A. 60-61): "Just why this court, under the circumstances, should feel called upon, in view of the Government's position, to restrain prosecution of the pending suits in the several district courts and take upon itself the adjudication of the controversy between the defendants when that controversy involves issues, such as the right to recover under *quantum meruit* or infringement, as alleged, when the Government as the sole protector of the public interest in litigation of this character does not join the petitioners in such request for this court to do so, but by inference at least suggests that it is beyond the scope of the decree handed down in these proceedings, I do not appreciate."

** This falls far short of a reserved jurisdiction "to take further action, if experience thereafter should make such necessary or advisable, fully to effectuate the purposes of destroying the monopoly and conspiracy and denying the fruits thereof" (Natl. 6-7; Cert. 7).

It is contended that the December 9, 1954 modification of the final decree merely made explicit that which necessarily must have been implied if Article IV of the decree were to have purpose or effect (Natl. 14; Cert. 14). Such a statement is unwarranted and conflicts with the trial court's conclusion that Article IV does not, either expressly or by fair implication, cover the counts in USG's pending suits other than Counts I and II (J. S. A. 77). The action of the District Court in enjoining the pending suits, without evidence as to misuse or purge during the period involved, therefore did not effectuate the purposes of Article IV, but improperly injected into the decree a new subject matter of a purely private nature.

B. Appropriate Remedy.

The appellees' contention that the District Court's amendment is justified as being within a judicial remedy now well established in patent antitrust cases likewise is without merit (Natl. 9-10; Cert. 10). In support of this contention reference is made to *Hartford-Empire,* but there, as shown, the injunction against bringing infringement suits for use of patents prior to the entry of the decree expressly excluded such suits against co-defendant licensees. Moreover, *Hartford-Empire* established that in the absence of continued law violation *pendente lite,* compensation to patentee for the use of its patents was appropriate (J. S. 20-22).

The fact is irrelevant that it is now "often" provided in litigated antitrust decrees that patentees misusing their patents are enjoined from asserting infringement or other rights thereunder until the effects of their violations can

be shown to have been fully dissipated.* The fact remains that in other cases, as in this case, there is no such injunction. And payment of reasonable royalties was made a condition to the compulsory licensing provision in both the November 7, 1949 and the May 15, 1951 decrees.

C. Trial Court's Discretion.

The motions to affirm seek to justify the District Court's action as being within the scope of its discretionary powers which ought not to be reviewed here, and certainly not disturbed in the absence of abuse of discretion (Natl. 10-13, 15; Cert. 11-13). This very point was presented on the second appeal of this case to the Supreme Court** and the Court's answer is found in 340 U. S. 76 at p. 89 (quoted in National's motion, p. 12). There can be no justification in applying a different rule at this stage of the case.

Besser Manufacturing Co. v. *United States,* 343 U. S. 444 (1952), and the other cases cited, are not inconsistent with the Court's declaration in the *Gypsum* case (Natl. 11-13, 27; Cert. 11-13, 26). This Court has repeatedly recognized that the determination of the scope of the decree to accomplish its purpose is peculiarly the responsibility of the trial court and that there is a certain area of discretion in connection therewith, but at the same time it has never hesitated to act to correct the provisions of a decree, where it deemed such action appropriate. This Court has not felt restrained from taking such action on the ground that the trial court's power in drafting decretal provisions is one of discretion, subject only to reversal for gross abuse.

---

* Similarly, it is not persuasive that such a provision is put into consent decrees.

** Oct. 1950 Term, No. 30, Appellee USG's Br. pp. 18-20.

The motions to affirm are without merit and should be denied.

Respectfully submitted,

BRUCE BROMLEY,
CRANSTON SPRAY,
ROBERT C. KECK,
HUGH LYNCH, JR.,
Attorneys for Defendant, United States Gypsum Company.

CRAVATH, SWAINE & MOORE,
15 Broad Street,
New York 5, New York,

MACLEISH, SPRAY, PRICE & UNDERWOOD,
134 South LaSalle Street,
Chicago 3, Illinois,

MACLEAY, LYNCH & MACDONALD,
1625 K. Street, N. W.,
Washington 6, D. C.,
Of Counsel.

FREE COPY

Office - Supreme Co
FILE
SEP 19 19
JOHN T. FEY,

IN THE

Supreme Court of the United States

OCTOBER TERM, 1956.

No. 11

UNITED STATES GYPSUM COMPANY,
Appellant,

vs.

NATIONAL GYPSUM COMPANY, ET AL.,
Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA.

BRIEF OF APPELLANT.

BRUCE BROMLEY,
CRANSTON SPRAY,
ROBERT C. KECK,
HUGH LYNCH, JR.,
Attorneys for Appellant, United States Gypsum Company.

CRAVATH, SWAINE & MOORE,
15 Broad Street,
New York 5, New York,
MACLEISH, SPRAY, PRICE & UNDERWOOD,
134 South LaSalle Street,
Chicago 3, Illinois,
MACLEAY, LYNCH & MACDONALD,
1625 K. Street, N. W.,
Washington 6, D. C.,
Of Counsel.

INDEX.

	PAGE
Opinions Below	2
Jurisdiction	2
Statutes and Rules Involved	4
Questions Presented	4
Statement of the Case	5
The Government Sues the Industry	6
USG Sues Users of Its Patents	12
Appellees Petition the District Court	15
Summary of Argument	20
Argument	26
I. The District Court Erred in Assuming Jurisdiction to Entertain the 1953 Petitions and Enjoin the Suits Theretofore Commenced by USG in Other Federal Courts of Competent Jurisdiction	26
II. The District Court Erred in Holding That the Filing of the USG Suits Against Its Co-Defendant Licensees in the Anti-Trust Case to Recover Reasonable Compensation for the Use of Its Patents Constitutes a Misuse of USG's Patents	36
III. The District Court Erred in Holding That the Issues of Patent Misuse and Purge During the 1948-1951 Period Could Be Adjudicated as a Matter of Law and Without the Taking of Any Evidence	48

IV. The District Court Erred in Holding That the Final Decree of May 15, 1951, Barred, or Should Be Amended to Bar, USG from Suing to Recover Compensation for Use of Its Patents by the Corporate Appellees During the 1948-1951 Period 62

1. The May 15, 1951 Decree..... 62

2. The December 9, 1954 Decree..... 68

Conclusion..... 75

Appendix A—The December 9, 1954 Decree..... A1

Appendix B—The May 15, 1951 Decree..... B1

Appendix C—

Federal Rules of Civil Procedure Rule 8 (a), (e), (f) C1

35 U. S. C., Section 271..... C3

15 U. S. C., Sections 1, 2, 3 and 4..... C4

TABLE OF CASES.

Air Products v. Boston Metals Co., 98 F. Supp. 719 (D. Md., 1951), rev'd on other grounds 193 F. 2d 535 (4th Cir., 1952), cert. denied 343 U. S. 953 59-60

Aluminum Company v. United States, 302 U. S. 230 (1937) 32, 34

American Surety Co. v. Citizens Natl. Bank, 294 F. 609 (8th Cir., 1923) 52

Athens Roller Mills v. Com'r. of Int. Rev., 136 F. 2d 125 (6th Cir., 1943) 52

Automatic Radio Co. v. Hazeltine, 339 U. S. 827 (1950) . 58-59

Baker-Cammack Hosiery Mills v. Davis Co., 181 F. 2d 550 (4th Cir., 1950), cert. denied 340 U. S. 824 57

Bank of United States v. Dandridge, 12 Wheat. (25 U. S.) 64 (1827) 51

W. F. & John Barnes Co. v. International Harvester Co., 145 F. 2d 915 (7th Cir., 1945), cert. denied 324 U. S. 850 51

Bestwall Mfg. Co. v. United States Gypsum Company, 270 Fed. 542 (7th Cir., 1921), cert. denied 263 U. S. 713 6

Buckeye Co. v. Hocking Valley Co., 269 U. S. 42 (1925) 29

Campbell v. Mueller, 159 F. 2d 803 (6th Cir., 1947) .. 59

Christensen v. Paramount Pictures, 95 F. Supp. 446 (D. Utah, 1951) 34

Chrysler Corporation v. United States, 316 U. S. 556 (1942) 29

Cincinnati & Texas Pac. Ry. v. Rankin, 241 U. S. 319 (1915) 51

Cole v. Hughes Tool Company, 215 F. 2d 924 (10th Cir., 1954), cert. denied 348 U. S. 927 44

Davis v. S. E. C., 109 F. 2d 6 (7th Cir., 1940), cert. denied 309 U. S. 687 51

DeLuxe Theatre Corp. v. Balaban & Katz Corp., 95 F. Supp. 983 (N. D. Ill., 1951) 34

Don George, Inc. v. Paramount Pictures, 111 F. Supp. 458 (D. La., 1951) 34

Eastern Venetian Blind Co. v. Acme Steel Co., 188 F. 2d 247 (4th Cir., 1951), cert. denied 342 U. S. 824 ...56-57

Emich Motors Corp. v. General Motors Corp., 340 U. S. 558 (1951) 34

Fanchon & Marco v. Paramount Pictures, 100 F. Supp. 84 (D. Calif., 1951), cert. denied 345 U. S. 964 34

Fidelity & Deposit Co. v. Grand Natl. Bank of St. Louis, 69 F. 2d 177 (8th Cir., 1934) 52

Fouke v. Jordy, 289 F. 220 (5th Cir., 1923) 72

George A. Fuller Co. v. Otis Elevator Co., 245 U. S. 489 (1918) 72

Harriman v. Northern Securities Co., 197 U. S. 244 (1905) 34

Hartford-Empire Co., et al. v. United States, 323 U. S. 386 (1945) 21, 38, 40, 47, 60, 62, 66, 70

Hartford-Empire Co., et al. v. United States, 324 U. S. 570 (1945) 21, 38, 47, 60, 66, 70

Hawkinson v. Dennis, 166 F. 2d 61 (5th Cir., 1948) ... 48

Hoague-Sprague Corp. v. Bird & Son, 91 F. Supp. 159 (D. Mass., 1950) 48, 49-50, 59

Homewood Theatre v. Loew's, Inc., 110 F. Supp. 398 (D. Minn., 1952) 34

Hughes v. United States, 342 U. S. 353 (1952).....29, 63-64
International Brotherhood v. N. L. R. B., 341 U. S. 694 (1951)..... 39
International Shoe Co. v. Commission, 280 U. S. 291 (1929)..... 51
Kimmel v. Yankee Lines, 224 F. 2d 644 (3d Cir., 1955) 72
Kool Vent Metal A. Corp. v. American Beauty V. A. A. Co., 119 F. Supp. 802 (N. D. Ohio, 1954), rev. on other grounds 226 F. 2d 207 (6th Cir., 1955)..... 59
Loew's, Inc. v. Cinema Amusements, Inc., 210 F. 2d 86 (10th Cir., 1954)..... 34
Lorain Journal v. United States, 342 U. S. 143 (1951) 28
McFarland v. Campbell, 213 F. 2d 855 (5th Cir., 1954) 52
Mercoid Corp. v. Mid-Continent Investment Co., 320 U. S. 661 (1944)..... 47
Metals Disintegrating Co., Inc. v. Reynolds Metals Co., 92 F. Supp. 896 (D. Del., 1950), 107 F. Supp. 105 (D. Del., 1952), aff'd. 228 F. 2d 885 (3d Cir., 1956).....48, 49, 57-58
Missouri-Kansas Pipeline Co. v. United States, 312 U. S. 502 (1941)..... 73
Morrill, et al. v. Automatic Industries, Inc., 93 F. Supp. 697 (W. D. Mo., 1950)..... 60
Missouri Pacific R. R. Co. v. Prude, 265 U. S. 99 (1924) 51
New York Central & Hudson R. R. Co. v. Beaham, 242 U. S. 148 (1916).....51-52
Northern Securities Co. v. United States, 193 U. S. 197 (1904)..... 34
Oklahoma v. Texas, 272 U. S. 21 (1926)..... 63
Owensboro v. Westinghouse, 165 F. 385 (6th Cir., 1908) 72

Pasadena Research Lab. v. United States, 169 F. 2d 375 (9th Cir., 1948), cert. denied 335 U. S. 853..... 51

Park-In Theatres, Inc., et al. v. Paramount-Richards Theatres, Inc., et al., 81 F. Supp. 466 (D. Del., 1948) 48

Park-In Theatres, Inc., et al. v. Paramount-Richards Theatres, Inc., et al., 90 F. Supp. 730 (D. Del., 1950), aff'd 185 F. 2d 407 (3rd Cir., 1950); cert. denied 341 U. S. 950.....47, 48, 59

Schine Chain Theatres v. United States, 334 U. S. 110 (1948)..... 62

Schlitz Brewing Co. v. Compton, 142 Ill. 511 (1892).. 51

Standard Oil Co. v. Markham, 64 F. Supp. 656 (S. D. N. Y., 1945), modified and aff'd. 163 F. 2d 917 (2d Cir., 1947), cert. denied 333 U. S. 873.....34, 35, 60

In re Stratton, 53 F. Supp. 131 (S. D. Calif., 1943), aff'd. 148 F. 2d 986 (9th Cir., 1945), aff'd. 327 U. S. 269..... 51

Strocco Products, Inc. v. Mullenbach, 67 U. S. P. Q. 168 (S. D. Calif. 1944)..... 47

Sugar Institute v. United States, 297 U. S. 553 (1936) 28

Swift & Co. v. United States, 196 U. S. 375 (1905)..... 63

Sylvania Industrial Corp. v. Visking Corp., 132 F. 2d 947 (4th Cir., 1943), app. dism. 319 U. S. 777..... 59

Terminal Railroad Association of St. Louis v. United States, 266 U. S. 17 (1924)..... 64

Theatre Enterprises v. Paramount, 346 U. S. 537 (1954) 34

Timken Roller Bearing Co. v. United States, 341 U. S. 593 (1951)..... 39

Twentieth Century-Fox Corp. v. Brookside Th. Corp., 194 F. 2d 846 (8th Cir., 1952), cert. denied 343 U. S. 942..... 34

United Shoe Machinery Co. v. United States, 258 U. S. 451 (1922)..... 63
United States v. American Can Co. (N. D. Cal., 1950), 1950-51 Trade Cases, 62,679..... 28
United States v. American Mono Rail Co. (N. D. Ohio, 1955), 1955 Trade Cases 68,041..... 66
United States v. Bearing Distributors Co. (W. D. Mo., 1953), 1952-53 Trade Cases 67,595..... 66
United States v. Bendix Home Appliances, 10 F. R. D. 73 (S. D. N. Y., 1949).....31, 35
United States v. Blaw-Knox Co. (W. D. Pa., 1954), 1954 Trade Cases 67,750..... 28
United States v. Cleveland Stone Co. (N. D. Ohio, 1916), Decrees and Judgments in Federal Anti-Trust Cases, p. 420..... 28
United States v. Columbia Artists Management, Inc. (S. D. N. Y., 1955), 1955 Trade Cases 68,173..... 28
United States v. Columbia Gas & Electric Co., 27 F. Supp. 116 (D. Del., 1939).....31, 32
United States v. General Electric Co. (D. N. J., 1954) 1954 Trade Cases 67,714..... 66
United States v. General Electric Co., 95 F. Supp. 165 (D. N. J., 1950)..... 31
United States v. General Mills, Inc. (D. Mich., 1955), 1955 Trade Cases 67,979, 68,118..... 29
United States v. Great Lakes Towing Co. (N. D. Ohio, 1915), Decrees and Judgments in Federal Anti-Trust Cases, pp. 257-8..... 28
United States v. Hilton Hotels Corp. (N. D. Ill. E. D., 1956), 1956 Trade Cases 68,253..... 29

United States v. Imperial Chemical Industries, 105 F. Supp. 215 (S. D. N. Y., 1952)..... 28

United States v. International Business Machines Corp. (S. D. N. Y., 1956), 1956 Trade Cases 68,245....28-29, 66

United States v. International Harvester Co., 274 U. S. 693 (1927).....29, 63

United States v. Investors Diversified Services, Inc. (D. Minn., 1954), 1954 Trade Cases 67,799..... 66

United States v. Kelsey-Hayes Wheel Co. (E. D. Mich., 1955), 1955 Trade Cases 68,093..... 66

United States v. Kosher Butchers' Assn. of Los Angeles (S. D. Cal., 1955), 1955 Trade Cases 67,988.... 28

United States v. Libbey-Owens-Ford Glass Co. (N. D. Ohio, 1955), 1955 Trade Cases 68,207 (p. 70,973).. 35

United States v. Logan Co. (W. D. Pa., 1956), 1956 Trade Case 68,375..... 60

United States v. Ernest Lowenstein, Inc. (S. D. N. Y., 1955), 1955 Trade Cases 68,106..... 66

United States v. Loew's Inc., et al. (S. D. N. Y., 1950), 1950-51 Trade Cases 62,573..... 34

United States v. Mager & Gougelman, Inc. (N. D. Ill., 1952) 1952-53 Trade Cases 67,233..... 66

United States v. Magcobar, Inc. (S. D. Calif., 1955), 1955 Trade Cases 68,023..... 66

United States v. Michigan Tool Co. (E. D. Mich. S. D., 1956), 1956 Trade Cases 68,290..... 66

United States v. Minn. Mining & Mfg. Co., et al. (D. Mass., 1950) 1950-51 Trade Cases 62,687..... 66

United States v. Minn. Mining & Mfg. Co., et al. (D. Mass., 1950), 1950-51 Trade Cases 62,724.....28, 66

United States v. National Automotive Parts Assn. (E. D. Mich., 1954), 1954 Trade Cases 67,749..... 28
United States v. National City Lines, Inc. (N. D. Ill., 1954), 1954 Trade Cases 67,917..... 66
United States v. National Lead Co., 63 F. Supp. 513 (S. D. N. Y., 1945)..... 28
United States v. Northern Securities Co., 128 Fed. 808 (S. D. Minn., 1904)..... 31
United States v. Oregon State Medical Society, 343 U. S. 326 (1952)..... 40
United States v. Paramount Pictures, 70 F. Supp. 53 (S. D. N. Y., 1947)..... 28
United States v. Paramount Pictures, Inc., et al. (S. D. N. Y., 1949), 1948-49 Trade Cases 62,377..... 34
United States v. Phillips Screw Co. (N. D. Ill., 1949), 1948-49 Trade Cases 62,394..... 66
United States v. Pittsburgh Crushed Steel Co. (D. Ohio, 1954), 1954 Trade Cases 67,892..... 29
United States v. R. C. A., 3 F. Supp. 23 (D. Del., 1933) 31
United States v. The Sperry Corp. (S. D. N. Y., 1942), 1941-43 Trade Cases 52,844..... 66
United States v. Union Pacific Ry. Co. (D. Utah, 1911), Decrees and Judgments in Federal Anti-Trust Cases p. 229..... 28
United States v. United States Gypsum Co., et al., 67 F. Supp. 397 (D. of C., 1946).....2, 6, 7, 53
United States v. United States Gypsum Co., et al., 124 F. Supp. 573 (D. of C., 1954)..... 2
United States v. United States Gypsum Co., et al., 134 F. Supp. 69 (D. of C., 1955)..... 2

United States v. United States Gypsum Company, et al., 333 U. S. 364 (1948).....1, 4, 7, 11, 43

United States v. United States Gypsum Company, et al., 339 U. S. 960.....8, 9, 43, 53

United States v. United States Gypsum Company, et al., 340 U. S. 76.....9, 10, 11, 39, 55

United States v. Wallace & Tiernan Co., Inc. (D. R. I., 1954), 1954 Trade Cases 67,828..... 66

United States v. Western Electric Co., Inc., et al. (D. N. J., 1956), 1956 Trade Cases 68,246..... 29

United States Gypsum Company v. Bestwall Mfg. Co., 15 F. 2d 704 (N. D. Ill., 1925)..... 6

United States Gypsum Company v. Bestwall Mfg. Co., et al., 290 F. 800 (7th Cir., 1923), cert. denied 263 U. S. 713..... 6

Universal Sewer Pipe Corp. v. General Construction Co., 42 F. Supp. 132 (N. D. Ohio, 1941)..... 59

Vicksburg v. Henson, 231 U. S. 259 (1913)..... 63

Westinghouse Electric Corp. v. Bulldog Electric Products Co., 179 F. 2d 139 (4th Cir., 1950).....48, 49, 58

White Cap Co. v. Owens-Illinois Glass Co., 203 F. 2d 694 (6th Cir., 1953), cert. denied 346 U. S. 876.....59, 61

Statutes and Rules Cited.

Federal Rules of Civil Procedure—
Rule 8(a), (e) and (f).....4, 22, 38, 41, 42
Rule 41(b)..... 7
Rule 56..... 7
Rule 65(d)..... 63

15 U. S. C., Sections 1, 2, 3 and 4.....2, 4, 6

15 U. S. C., Section 16..... 34

15 U. S. C., Section 29 3
28 U. S. C., Section 133 34
28 U. S. C., Sections 1253, 2101(b) 3
28 U. S. C., Sections 1332, 1338, 1391, 1400 27
35 U. S. C., Section 271(d) 4, 22, 38, 44, 45, 46, 47

Miscellaneous Citations.

30 American Jurisprudence, 966-7 72
101 A. L. R. 104 72
142 A. L. R. 727 72
152 A. L. R. 1066 72
Decrees and Judgments in Federal Anti-Trust Cases, pp. 113, 262, 309, 331, 376, 403, 415 28
Final Decree in United States v. Hartford-Empire Co. (N. D. Ohio, 1946) 28
Final Report and Account of Receiver of Hartford-Empire Co. filed December 20, 1945, and approved January 17, 1946, in Civil Action No. 4426 (D. C. N. D., Ohio) 39
1 Freeman on Judgments, Sec. 422 72
Hearings before Subcommittee No. 3, House Judiciary Committee, June 15, 1951, pp. 169-174, Committee Reprint 47
House Report No. 1923, 82d Cong., 2d Sess., p. 9. ... 47
Restatement of the Law of Judgments, Sec. 82 72
Senate Report No. 1979, 82d Cong., 2d Sess., p. 8 47

IN THE

Supreme Court of the United States

OCTOBER TERM, 1956.

No. 11.

UNITED STATES GYPSUM COMPANY,
Appellant,

vs.

NATIONAL GYPSUM COMPANY, ET AL.,
Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA.

BRIEF OF APPELLANT.

Appellant, United States Gypsum Company (USG), appeals from the decree of a three-judge court of the United States District Court for the District of Columbia, entered December 9, 1954 (*infra,* Appendix A; R. 1159), modifying a final decree of that court entered May 15, 1951 (*infra,* Appendix B; R. 562).*

---

* By stipulation, the six volumes of the record filed on the Government's appeal to the October, 1947, term of this Court (see 333 U. S. 364) may be referred to in the briefs filed on this appeal. Such reference will be designated "1947 R." followed by the page number. All other record references herein will be to the record printed on this appeal, and will be designated "R.", followed by the page number.

OPINIONS BELOW.

The opinion of the district court, filed June 30, 1955 (R. 1336), denying the USG motion for a new trial is reported at 134 F. Supp. 69.

The opinion of the district court denying reconsideration, filed December 9, 1954 (R. 1136) is unreported.

The opinion of the district court granting modification of the final decree and the dissenting opinion, filed July 6, 1954 (R. 975, 1015), are reported at 124 F. Supp. 573, 598.

The opinions of Judges Garrett and Jackson granting the Government's motion for summary judgment, filed on June 29, 1948 (following the first remand by this Court), and the dissenting opinions of Judge Stephens with respect thereto (R. 138-140, 478) are unreported.

The opinion of the district court dismissing the antitrust suit at the close of the Government's case, filed June 15, 1946 (1947 R. 3933), is reported at 67 F. Supp. 397.

JURISDICTION.

This appeal is from a decree, entered December 9, 1954, by a three-judge court (one judge dissenting) of the United States District Court for the District of Columbia (App. A; R. 1159), ordering modification of a final decree of that court entered May 15, 1951 (App. B; R. 562). The final decree of May 15, 1951 terminated an action, instituted by the United States August 15, 1940, against, among others, USG, National Gypsum Company (National), Certain-teed Products Corporation (Certain-teed), Newark Plaster Company (Newark) and Ebsary Gypsum Company (Ebsary) under Sections 1, 2, 3 and 4 of the Sherman Act (Act of July 2, 1890, 26 Stat. 209, as amended; 15 U. S. C., Sections 1, 2, 3 and 4).

On March 25, April 22, May 15, June 3, and June 30, 1953, respectively, appellees National, Certain-teed, Newark, Ebsary and the United States filed separate petitions in the district court for orders or directions for the construction, carrying out or enforcement of the final decree of May 15, 1951.* On September 9, 1953, USG filed its answers to each of the pending petitions.** The decree of the district court in the proceeding on those petitions and answers thereto, entered without the taking of any evidence thereon, is the appealed-from decree of December 9, 1954. A motion for a new trial was filed December 20, 1954, by USG (R. 1160). That motion was denied June 30, 1955 (one judge dissenting), and notice of appeal was filed by USG in the district court August 26, 1955 (R. 1340).

USG filed its jurisdictional statement on October 24, 1955. Motions to affirm were filed by appellees National and Certain-teed November 22, 1955, and on December 12, 1955, USG filed its brief in opposition to such motions. On January 16, 1956, this Court noted probable jurisdiction (350 U. S. 946).

The jurisdiction of the Supreme Court to review the decree of December 9, 1954, by direct appeal is conferred by 28 U. S. C., Sections 1253 and 2101(b), and by 15 U. S. C. Section 29.

---

* Natl. R. 604; Cert. R. 657; New. R. 666; Ebs. R. 669; U. S. R. 739. The petitions of the corporate appellees sought to have the 1951 decree amended to enjoin suits which USG had brought against National and Certain-teed in the federal court in Iowa and against Newark and Ebsary in the federal courts in New Jersey and New York (*infra*, pp. 12-16). As appears from the affidavit of Bruce Bromley filed with the Clerk of this Court February 10, 1956, appellees Newark and Ebsary and appellant USG, subsequent to the date this Court noted probable jurisdiction of this appeal, adjusted their controversies by the payment of certain sums by Newark and Ebsary to USG in settlement of the USG claims against them for use of its patents, and the USG suits against them were dismissed.

** USG's answers to Natl. R. 777; to Cert. R. 790; to New. R. 800; to Ebs. R. 805; to U. S., R. 810.

STATUTES AND RULES INVOLVED.

Federal Rules of Civil Procedure, Rule 8(a), (e) and (f), 35 U. S. C., Section 271, and 15 U. S. C., Sections 1, 2, 3 and 4 (Sherman Act) are set forth in the Appendix C, *infra*, at pages C1, C3 and C4, respectively.

QUESTIONS PRESENTED.

Where, after a civil antitrust suit in which a conspiracy to fix prices by means of patent licensing had been charged by the United States against USG and its co-defendant patent licensees, a final decree is entered against defendants, but that final decree does not bar and the Department of Justice does not oppose suits by USG in other federal district courts of competent jurisdiction to recover reasonable compensation for use made by others of USG patents prior to entry of the final decree:

(1) Would the mere filing of such suits by USG against the co-defendant patent licensees in the antitrust suit constitute a misuse of USG patents?

(2) Would the record in this case, including the issues joined by the 1953 petitions and answers thereto, permit adjudication, as a matter of law and without the taking of any evidence, of the issues of patent misuse or purge during all or any part of the period from February 1, 1948,* to entry on May 15, 1951, of the final decree?

(3) Would the final decree of May 15, 1951, expressly or by fair intendment, bar USG from suing

* February 1, 1948, is the earliest date from which USG claims compensation from the corporate appellees for use of its patents and is the approximate date on which the various corporate appellees stopped paying royalties to USG for their use of its patents. Those refusals to pay, according to the corporate appellees, were prompted by the entry on March 8, 1948, of the opinion of this Court in *United States* v. *United States Gypsum Co., et al.*, 333 U. S. 364, which decision voided the license agreements as asserted in the motions to affirm filed herein (Nat'l p. 3; Cert. p. 4).

for reasonable compensation on any theory for use of its patents by its co-defendant patent licensees during the period from February 1, 1948 to May 15, 1951?

(4) Would the basic purposes of the final decree in the antitrust suit authorize modification of that decree to include a provision barring USG from suing for reasonable compensation for use of its patents by its co-defendant patent licensees during the period from February 1, 1948 to May 15, 1951, and subsequent thereto?

(5) Would the district court have, or should it have taken, jurisdiction to entertain the 1953 petitions of the co-defendant patent licensees or to enjoin suits already commenced by USG against those co-defendants?

STATEMENT OF THE CASE.

This appeal involves primarily a post decree controversy between certain co-defendants in a civil antitrust suit brought by the United States over sixteen years ago and terminated by a final decree entered May 15, 1951.* The appeal presents the question whether USG shall be permitted to sue in courts of competent jurisdiction to recover from its co-defendants in the antitrust suit reasonable compensation for their use of USG patents.

USG has been engaged since 1901 in the production of gypsum and in the manufacture and sale in interstate commerce of gypsum products (1947 R. 6, 270-1). Gypsum products, including gypsum wallboard, gypsum lath, plasterboard and gypsum plaster, are widely used in the construction industry (1947 R. 3, 4, 266-7). In the 1926-1930 period, as part of an industrywide settlement of multiple suits for infringement of USG's board patents, the valid-

* The final decree of May 15, 1951 will sometimes hereinafter be referred to as the "1951 decree" or "1951 final decree" and the decree of November 7, 1949, which it supplanted, as the "1949 decree". The appealed from decree of December 9, 1954, will sometimes hereinafter be referred to as the "1954 amendment."

ity and infringement of which had been theretofore established,* agreements were signed in which USG licensed its patents in substantially identical terms (except for the portions providing for the damages payable by the licensee for past use of the patents, where the amounts differed according to the extent of infringement) to all companies then manufacturing gypsum board east of the Rocky Mountains. Those agreements reserved to USG the right to control its licensees' minimum prices and their terms and conditions of sale on all patented gypsum board manufactured and sold by them under the license agreements which, with USG's sales of such board, was substantially all gypsum board manufactured and sold in that area (1947 R. 4134-44 (Findings 8, 10, 12, 18, 19, 21); R. 39, 41-44 (Offer of Proof Nos. 12, 13, 19-22, 27-29, 36-40, 49)).

The Government Sues the Industry.

On August 15, 1940, the United States instituted in the court below a civil suit under the Sherman Act against USG, five other corporate defendants (including National, Certain-teed, Newark and Ebsary), and eight individual defendants. The complaint in that action charged the defendants with conspiring to restrain interstate commerce in gypsum board, gypsum plaster and miscellaneous gypsum products, and with monopolizing, attempting to monopolize and conspiring to monopolize such commerce in violation of Sections 1, 2 and 3 of the Sherman Act (1947 R. 1, 9-11).

---

* *Bestwall Mfg. Co.* v. *United States Gypsum Co.*, 270 F. 542 (7th Cir. 1921); 290 F. 798 (7th Cir. 1923); *United States Gypsum Company* v. *Bestwall Mfg. Co., et al.*, 290 F. 800 (7th Cir. 1923), cert. denied, 263 U. S. 713 (1923); *United States Gypsum Co.* v. *Bestwall Mfg. Co.*, 15 F. 2d 704 (N. D. Ill. 1925); see also *United States* v. *United States Gypsum Co., et al.*, 67 F. Supp. 397, 405 (D. C. 1946); and Offer of Proof, Nos. 6, 9, 10 and 11, R. 37-38.

Defendants' answers joined issue on all allegations of wrong doing.* The Government presented its case in the period from November 15, 1943 to April 19, 1944, at the conclusion of which the defendants moved to dismiss under Rule 41(b) of the Federal Rules of Civil Procedure. On June 15, 1946, the district court rendered its opinion granting defendants' motions (67 F. Supp. 397), and on August 5, 1946 dismissed the complaint (1947 R. 4169).

In October Term 1947, this Court reversed the judgment of the district court dismissing the complaint at the close of the Government's case. In the opinion (333 U. S. 364, 389) this Court said that the industry-wide license agreements entered into by the corporate defendants in 1929

> "with knowledge on the part of licensor and licensees of the adherence of others, with the control over prices and methods of distribution through the agreements and the bulletins, were sufficient to establish a *prima facie* case of conspiracy."

The case was remanded to the district court.

On remand, the Government filed a motion for summary judgment under Rule 56, Federal Rules of Civil Procedure (R. 35). Defendants filed offers of proof negating the material facts of the complaint except the averments that the defendant companies had entered into license agreements, industry-wide in scope, with minimum price provisions which were adhered to by the parties, with knowledge of the adherence of others (R. 36-54, 56-57).

On June 29, 1948, the district court (Judge Stephens dissenting) ruled that the motion for summary judgment should be allowed (R. 138-140, 478). Thereafter the Government filed its proposed findings of fact and conclusions

* USG, 1947 R. 263; Nat. 1947 R. 214; Cert. 1947 R. 228; New. 1947 R. 296; Ebs. 1947 R. 164; Celotex 1947 R. 188.

of law and its proposed decree (R. 157), and the defendant companies filed objections thereto and made suggestions with respect to the form of findings, conclusions and decree to be entered.* Oral arguments were had before the district court on June 13 and 14, 1949, as to the findings and conclusions, if any, and the form of decree to be entered (R. 211-424), and on November 7, 1949, the district court entered its decree without other findings than those contained in the decree (R. 471).

After a preliminary statement, the 1949 decree found jurisdiction (Art. I); defined terms and listed certain license agreements between the defendant companies (Art. II); declared that the defendant companies "have acted in concert in restraint of trade * * * to fix, maintain and control the prices of gypsum board and have monopolized trade * * * in violation of sections 1 and 2 of the Sherman Antitrust Act" (Art. III); adjudged the license agreements listed therein unlawful under the antitrust laws and illegal, null and void (Art. IV); enjoined the defendant companies against enforcement or performance of the license agreements and against similar violations of the antitrust laws (Art. V); provided for limited compulsory licensing (Art. VI); provided that the decree should not affect anything permitted by Act of Congress (Art. VII); approved the forms of license agreements theretofore filed with the court by USG (Art. VIII); reserved limited jurisdiction of the cause (Art. IX) and provided for taxing costs (Art. X).

Both the Government and USG took direct appeals to this Court from the 1949 decree (R. 504, 509). USG appealed on the ground of its right to introduce material evidence. This Court dismissed that appeal (339 U. S.

* USG, R. 166; Cert. R. 194-5; New. R. 196; Natl. R. 197; Celotex R. 207; Ebs. R. 208.

959). The reason for the dismissal was later stated by this Court as follows:

> "* * * we read the preliminary statement of the District Court to the decree and the summary decree itself as an adjudication of violation of the Sherman Act by the action in concert of the defendants through the fixed-price licenses, accepting as true the underlying facts in defendants' proof by proffer. The trial judges understood the summary judgment to be, as Judge Stephens said, 'limited to that one undisputed question.' Judge Garrett and Judge Jackson agreed. That conclusion entitled the Government only to relief based on that finding and the proffered facts. On that basis we dismissed United States Gypsum's appeal from the decree, and on that basis we examine the Government's objection to the decree" (340 U. S. 76, 88).

Probable jurisdiction was noted on the appeal of the Government (339 U. S. 960). In the order of May 29, 1950, noting probable jurisdiction, and for the same reason the USG appeal was dismissed, this Court affirmed Article III of the district court decree and enjoined the defendant companies, pending further order of this Court, from enforcing in any manner whatsoever the provisions of their license agreements fixing, maintaining or stabilizing prices of gypsum board or the terms and conditions of sale thereof, and from entering into or performing any agreement or understanding in restraint of trade and commerce in gypsum board by license agreements to fix, maintain or stabilize prices of gypsum board or by license or other concerted action arranging the terms and conditions of sale thereof (339 U. S. 960). This Court's injunctive order of May 29, 1950 was continued in effect until the entry of the 1951 final decree (R. 514).

The issues for determination on the appeal of the Government had to do with an enlargement of the provisions

of the district court decree which this Court considered, granting some of the Government's requests and rejecting others. The approval by this Court of some of the Government's proposals made it necessary to reverse the decree of the district court and to remand the cause for further proceedings in conformity with the opinion of this Court (340 U. S. 76, 95).

After hearing argument for all parties and upon consideration of several forms of decree submitted to it by the parties* a decree was entered by the district court on May 15, 1951 (the 1951 decree, App. B; R. 562), which was approved as to form by plaintiff and defendants (R. 601). None of the parties appealed from that final decree.

The 1951 decree follows the general form of the 1949 decree which it replaced. The preliminary statement is in substantially the same form except for the added reference to the proceedings following the entry of the 1949 decree. Article I finds jurisdiction. Article II defines terms and lists certain license agreements between defendant companies. Article III (adjudicating Sherman Act violation as to gypsum board by the concerted action of defendant companies) and Article IV (declaring the listed license agreements illegal, null and void) are identical with Articles III and IV in the 1949 decree.

Article V enjoins the defendant companies and their respective officers, etc., from entering into or performing any agreement or understanding among them or other manufacturers of gypsum products to fix, maintain or stabilize prices or terms of conditions of sale of gypsum products "by patent license agreements or other acts or course of action," and specifically enjoins the carrying on of certain pricing and selling practices "pursuant to

* Gov.'s R. 515; USG's R. 523; Nat'l.'s R. 546; Cert.'s R. 553; hearing, May 15, 1951, R. 576.

such an agreement or understanding." Article VI contains provisions for compulsory licensing, at reasonable royalty, under USG patents or applications for patents relating to gypsum board, owned or controlled by USG or issued to or applied for or acquired by it within five years from the date of the decree. Article VII provides that the decree shall not affect anything permitted by Act of Congress; Article VIII gives the Department of Justice certain rights of investigation; Article IX assesses 50% of the costs among the defendant companies; and Article X contains a reservation of jurisdiction for the purpose of permitting application to the district court for such orders, etc. "as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith."

None of the proposed findings of fact, conclusions of law or decrees submitted to the district court by the Government or by the defendants in connection with either the 1949 decree or the unappealed 1951 final decree dealt in any way with the right of any person, co-conspirator or otherwise, to use USG patents without compensation during the period from the first Supreme Court opinion (333 U. S. 364, March 8, 1948) to entry of the 1951 final decree (R. 157, 166, 188, 194-205, 207, 208, 515, 523, 546, 553). Indeed, the amended complaint in the suit of the Government had included a prayer for an injunction against suits by any of the defendant companies for compensation or damages for unauthorized use of patents (1947 R. 346-7). However, the Government never requested that the court grant such relief, either in the proceedings leading to the formulation of the 1949 decree or the 1951 final decree (R. 213, 401, 576, 601). Nor did it include such a request in its 1950 appeal to this Court for enlargement of the relief granted (340 U. S. 76, 97-105). The prayer obviously was abandoned.

USG Sues Users of Its Patents.

On May 16, 1951, the day after entry of the 1951 final decree by the district court, USG wrote each of its co-defendant licensees saying that it intended to comply strictly with the provisions of the decree in every respect and, referring to the old license contracts, noted that all their provisions have "heretofore become and now are wholly cancelled and of no effect." In its letters USG also referred to the fact that royalties had not been paid under such agreements since early 1948, nor had USG sought to collect such royalties, but it had merely "stood upon our right to be compensated for the reasonable value of any use you may have made of our patents" (R. 784, 799).

None of the defendant licensees thereafter made any move to challenge this position before the court or otherwise. National and Certain-teed subsequently made applications, pursuant to the provisions of Article VI of the 1951 final decree, for licenses under certain patents of USG, which licenses were granted (R. 607, 662, 783). Those licenses were effective as of the date of the decree (May 15, 1951), and provided for royalty at 1% of the selling price of all gypsum board manufactured and sold thereunder embodying or made by the use of the inventions set forth and claimed in the licensed patents (R. 783).*

In letters from USG originally submitting a form of license to National and to Certain-teed pursuant to their respective applications therefor, and in letters transmitting the new licenses for final execution, and in letters acknowledging receipt of the first royalty payments thereunder, USG made it clear that nothing done in that connection

* This is the same royalty rate provided for in the old license agreements at the time the corporate appellees ceased paying royalties (R. 605, 648) and the same rate included in the revised licenses USG offered its licensees in 1949 (R. 449) and authorized by the district court in its decree of November 7, 1949 (R. 476).

shall be construed as a waiver or release of any claim USG may have against the licensee for any use which such licensee may have theretofore made of any USG patent (R. 784, 796, 799, 898-9, 902-4). National signed and returned its license without question; Certain-teed signed and returned its license "without recognition or acceptance of the existence or validity" of any such claim (R. 898-9, 902-4). Both companies paid the royalties provided for in the 1951 license contracts taken by them (R. 607, 662). Neither Newark nor Ebsary applied for a license under the 1951 final decree.

Certain patents included in the compulsory licensing provisions of the 1951 decree were fundamental, basic patents in the manufacture and sale of gypsum board. USG's co-defendants in the antitrust suit were using them at the time of this Court's opinion of March 8, 1948, and they continued such use thereafter without payment of compensation therefor (R. 52, 349, 607, 661-2, 788, 795, 1145-6, 1266, 1287-8, 1315).

When it became obvious that National, Certain-teed, Newark and Ebsary did not intend to pay for their use of USG's patents during the 1948-51 period, USG was faced with the alternative of bringing suits to recover or of forfeiting its claims.

Accordingly, on January 28, 1953, USG sued National in the United States District Court for the Northern District of Iowa; on January 30, 1953, it sued Newark in the United States District Court for the District of New Jersey; on February 28, 1953, it sued Ebsary in the United States District Court for the Southern District of New York; and on March 11, 1953, it sued Certain-teed in the United States District Court for the Northern District of Iowa (Nat'l. Complt. R. 614; Cert. Complt. R. 646; Newark Complt. R. 634; Ebsary Complt. R. 622).

When USG determined to sue, it chose to draft a complaint that would meet all factual situations that might develop upon the trial of the case. Thus, each complaint in those four suits contains a count for royalties due for actual use of the plaintiff's patents, based on the royalties provided for under the prior license agreement between USG and the respective defendants (Count I);* a count for such royalties due under such agreement, as amended (Count II); a count for recovery of reasonable compensation for the actual use of USG's patents after the license agreement was terminated and under circumstances from which the law would imply a promise to pay (Count III); a common count of *quantum meruit*, seeking recovery of reasonable value for use of USG patents (Count IV); and a count or counts for their infringement (Counts V, VI) (R. 604-654). Since the granting of licenses, both before and after the period covered by the respective complaints, had established, by arm's length negotiations, the reasonable value of the use of the patents at 1% of the purchase price of the product embodying or made by use of the patents licensed, and since recovery under each count was limited to board involving actual use of the patents, the *ad damnum* in the various counts was necessarily the same, except in the *quantum meruit* and infringement counts of the Newark and Ebsary suits (*i. e.* Counts III, IV, V, and VI), where a longer period of time was involved since those companies never took the licenses authorized by Article VI of the final decree, but continued,

* Actually this claim did not attempt to enforce the royalty provisions of the old licenses, which required royalty on all board manufactured and sold, whether or not patented or made by use of the patents. In Count I of its suits, USG claimed compensation only on board embodying or made by use of the USG patents, based on the royalty rate fixed in the licenses (*i. e.* 1%).

nonetheless, to use USG patents after the date of the final decree of May 15, 1951.*

Answers were filed by National and Certain-teed in their respective suits joining issue on all material averments and pleading specially, among other things, that each suit was barred by the 1951 final decree (R. 710, 725). Following the filing of the National and Certain-teed petitions in the court below, proceedings were stayed in the two suits in the Iowa court pending the outcome of the instant proceedings (R. 741, 748, 759, 766, 773).

Appellees Petition the District Court.

Commencing with the petition filed by National on March 25, 1953, each of the corporate appellees had by June 3, 1953, filed separate petitions in the court below. The petition of National sought an adjudication that the suit brought against it by USG for compensation for the actual use of USG patents between 1948 and 1951 was in violation of the 1951 final decree, and, in the alternative, urged that the 1951 decree be modified by an order compelling dismissal of the USG suit, with prejudice, and enjoining USG from instituting any other suit seeking compensation for the use of USG patents by National for any period of time prior to May 15, 1951 (R. 604).

The petition filed by Certain-teed on April 22, 1953, was substantially identical with that of National in its theory of and prayer for relief (R. 657). The two petitions filed May 15, 1953 and June 3, 1953, respectively, by Newark and Ebsary were also closely similar to the National petition, except that they also asked that the district court

* Substantial amounts are claimed by USG. Thus, it seeks to recover the amount of $1,600,000 from National and $650,000 from Certain-teed. It claimed $185,000 from Newark and $160,000 from Ebsary (Counts III, IV and V), with an additional claim in Count VI for infringement of still another patent.

bar USG claims for use of its patents in the period subsequent to May 15, 1951 (R. 666, 669).

At a preliminary hearing June 9, 1953, the corporate petitioners below assured the district court that they made no claim of any existing antitrust violation by USG, except as the filing by USG of its suits for reasonable compensation might be considered such a violation (R. 673, 699). USG raised questions as to the district court's jurisdiction, and the court thereupon set time for all parties to file briefs as to jurisdiction and other questions with respect to the petitions (R. 684-5, 690-2, 704-7). At this hearing the Government stated that it had not as yet concluded what, if any, action it would take as to the petitions, and it was granted until June 30 to file such statement as it might determine to make (R. 683-4, 701).

On June 30, 1953, the United States filed its petition asking that the district court hold as barred by the 1951 final decree any recovery by USG in its compensation suits that was based on the license agreements that were adjudged illegal, null and void by Article IV of such decree. However, the petition of the United States expressly stated that in so far as any compensation suits by USG asserted claims for the reasonable value of the use of the USG patents or for due compensation for the infringement of such patents (being Counts III, IV and V in the National and Certain-teed suits), the United States took no position as to whether such alternative claims were barred by the 1951 final decree, or as to whether the district court should enter an order enjoining USG from prosecuting such alternative claims (R. 739-740).

On September 9, 1953, USG filed its answers to each of the pending petitions, putting in issue those allegations upon which relief was claimed, and averring additional facts as affirmative defenses (R. 777, 790, 800, 805, 810).

Pursuant to the court's order of June 9, 1953, briefs were filed by the parties in support of and in opposition to the petitions (Natl. R. 775; Cert. R. 774; USG, R. 812; U. S. R. 814), and an oral argument was had on January 12 and 13, 1954 (R. 819, 901).

On July 6, 1954, the district court, one judge dissenting, filed an opinion, ruling, among other things, that further prosecution of the USG suits should be enjoined (R. 975, 1015). On December 9, 1954, the district court, without having taken any evidence on the factual issues raised by the 1953 petitions and the answers of USG thereto, entered a decree, amending the 1951 final decree by adding to it a paragraph directing USG to dismiss, with prejudice, its pending actions against the four corporate petitioners (R. 1159).*

The basis of the district court decree of December 9, 1954, modifying the final judgment of May 15, 1951, may be rather simply stated. First, the court noted that in the USG compensation suits against the corporate appellees, Counts I and II are based, directly or indirectly, upon the terms of the license agreements invalidated by the 1951 decree; that Count III is a common count of *indebitatus assumpsit,* upon a pleaded express contract, the terms of which are so stated as to bring about recoveries identical with those that would be accorded by action on the invalidated agreements (notwithstanding repeated statements

* The three-judge court which had entered the final decree of May 15, 1951, had consisted of Judge Harold M. Stephens, Judge Finis J. Garrett and Judge Joseph R. Jackson (R. 562, 572). On May 7, 1953, Judge William P. Cole replaced Judge Jackson on the three-judge court, and, on December 1, 1953, Judges Stephens and Garrett resigned, to be replaced, respectively, by Judge Kimbrough Stone and Judge Eugene Worley (R. 669, 817, 818). Thus, the personnel of the three-judge court that entered the decree of modification on December 9, 1954, was entirely different from that which had heard the case originally and had entered the 1949 decree and the 1951 final decree.

by USG that the count was a *quantum meruit* count for recovery of reasonable compensation for use of the patents after rescission of the agreements and under circumstances from which a promise to pay would be implied by law (R. 689, 904-5, 973, 1045, 1185-6, 1258-9, 1320)); that Count IV is for *quantum meruit* for use by defendants of USG's patents; and that Counts V and VI allege infringement of USG's patents (Findings 27-30, R. 1153). Second, the district court recognized that the corporate appellees had based their petitions (a) upon the terms of the 1951 decree; (b) or, if that decree did not prohibit the USG suits against them, then upon a theory of misuse of patents; and (c) upon a plea to prevent a multiplicity of action (Finding 36; R. 1154). And, finally, the district court premised that if in, or after, the period for which USG sought compensation, USG had misused its patents, prosecution of the compensation suits would weaken the decree and should be barred by amendment thereof (Conclusion 13; R. 1157).

After making the observations set forth above, the district court then reasoned that inasmuch as Article IV of the final decree had nullified the license agreements upon which USG had bottomed Counts I and II of its complaints, USG should be enjoined from prosecuting those Counts (Conclusion 7; R. 1156).

But the district court also concluded that Article IV of the final decree

> "did not expressly nor impliedly cover the character of suits now brought by USG for infringement or for *indebitatus assumpsit* or for *quantum meruit*. It neither allowed nor forbade such." (Conclusion 7; R. 1156.)

Despite its conclusion that the final decree of May 15, 1951, did not proscribe recovery under those three additional legal theories, the district court nonetheless modified

that final decree to require such proscription. Thus, it disposed of the *indebitatus assumpsit* counts (*i. e.* the Count III *quantum meruit* count) as

> "but a left-handed, indirect method for recovering the royalties provided in the illegal license agreements" (Conclusion 14; R. 1157-58).*

It disposed of the *quantum meruit* counts (*i. e.* the Count IV common count) on the ground that

> "The attempt by USG to enforce the royalty provisions of the illegal patent license agreements is a clear misuse of its patents (and) * * * the *quantum meruit* Counts, are enjoined on the basis of preventing recovery in a multiplicity of suits wherein the misuse of the patents * * * is shown, as a matter of law to exist and not to have been purged" (Conclusions 13, 15; R. 1157, 1158).

Prosecution of the USG suits in so far as they were based on patent infringement was enjoined

> "both because of the practical and legal situation in the case, and also, [because of] the teaching in the *Hartford-Empire* case" (Conclusion 16; R. 1158).

This appeal was taken following the filing of the USG motion for new trial and its Points and Authorities in support thereof (R. 1160, 1163), the corporate appellees' statements in opposition thereto (R. 1193), the USG reply to such statements (R. 1208), oral argument on the motion (R. 1214) and the denial of the motion by the district court (one judge dissenting) on June 30, 1955 (R. 1335).

---

* The district court in its Conclusion 14, as well as in its Finding 28 that Count III was upon a pleaded express contract the terms of which were so stated as to bring about identical recoveries with those that would be accorded by action upon the invalidated agreements, apparently overlooked the fact that Count III expressly avers a rescission of the old license contracts and seeks recovery for use of the patents after such rescission, and therefore for a period not covered in any way by the old license contracts.

SUMMARY OF ARGUMENT.

I.

The USG suits seeking compensation for use of its patents were brought in 1953 in federal courts having jurisdiction by reason of diversity of citizenship and federal statutes authorizing infringement suits. A final decree had been entered in this case in 1951, which did not, however, deal with the right of USG to such compensation during the 1948-1951 period. The court below superimposed its jurisdiction and amended the 1951 final decree to compel USG to dismiss, with prejudice, its pending suits.

The district court did not have, or should not have taken, jurisdiction to so amend the 1951 decree, either under the reservation of jurisdiction (Art. X) to enter orders construing or carrying out the decree or enforcing compliance or under the court's inherent power to amend. Being a final decree in a Government antitrust suit, designed to prevent future Sherman Act violations, neither Article X nor the court's inherent power to amend, can justify enlargement of the decree to dispose of private controversies subsequently arising between co-defendants as to compensation for use of USG patents, which controversies are unrelated to the basic purposes of the 1951 decree.

The Government, as sole plaintiff and spokesman for the public interest, alone may seek such relief. Here the Government does not question the right of USG to seek a *quantum meruit* or infringement recovery (*i.e.* Counts III, IV, V and VI of its pending suits); it does not contend that assertion of such claims is violative of the 1951 decree or in conflict with its basic purposes.

The court below did not acquire paramount jurisdiction

over the present controversy because of its entry of the antitrust decree. Nor is jurisdiction justified to avoid a multiplicity of suits where, as here, application of the rule is premised upon the erroneous view that patent misuse exists, as a matter of law, because of the USG compensation suits. Facts warranting jurisdiction to avoid multiplicity of suits are not here present. It is immaterial that another federal court may construe the 1951 decree. Issues of patent misuse and purge often arise in courts other than the one which entered the antitrust decree.

II.

The district court's ruling that there was continuing misuse of USG patents, which required the 1954 amendment to compel USG to dismiss its pending suits, was not, and could not have been, based on any evidence of the factual situation in the 1948-1951 period. Evidence in the antitrust suit did not go beyond 1941; and no evidence was received on the misuse and purge issues raised by the 1953 petitions and answers thereto. The ruling was not based on any claim that USG is now using its patents to fix prices or monopolize trade. There admittedly was no claim of any existing antitrust violation by USG. USG had not fixed prices under its licenses since July 8, 1941.

The continued-misuse-as-a-matter-of-law ruling is premised on the fact that USG, in stating its compensation claims, included, along with *quantum meruit* and infringement counts, two counts based upon the royalty provisions of the invalidated license agreements. The lower court considered inclusion of these two counts a misuse of patents, defeating recovery on any theory.

Such a ruling is not supported by any authority. It conflicts with the ruling of this Court in *Hartford-Empire Company* v. *United States*, 323 U. S. 386 (1945); 324 U. S.

570 (1945). There, although the patents were illegally licensed, this Court ordered the district court to supervise turnover to Hartford-Empire of royalties collected by a court receiver *pendente lite* under its license agreements, unless Hartford had violated the antitrust laws in that period so as to disqualify it from compensation for use of its patents. This Court did not regard such assertion of claims for royalties as patent misuse in violation of the antitrust laws, and under direction of the district court, the matter was ultimately settled, Hartford receiving a substantial part of the royalties so collected.

The lower court's misuse ruling also transcends the concept of federal pleading stated in Rule 8 of the Federal Rules of Civil Procedure. In federal pleading, alternate statements of claims, regardless of consistency, may be made in one or more separate counts. Whether stated in separate counts or as a simple statement of events, the final theory of recovery is for the court rather than the pleader. The district court considered the mere pleading of claims based on the invalidated licenses (*i.e.*, Counts I and II) as a misuse of patents preventing recovery on any theory.

The misuse ruling conflicts with the public policy established by the recent patent law codification and with appellant's reserved rights in the 1951 decree (Art. VII). 35 U. S. C. Section 271(d) provides that no patent owner otherwise entitled to relief for infringement shall be denied relief or be deemed guilty of patent misuse by reason of his having sought to enforce his patent rights against infringement. Since mere bringing of a patent infringement suit is not misuse, then *a fortiori* a suit for infringement which pleads other counts, including one for royalty based on a license (which, among other things, is a grant of immunity from infringement) cannot itself constitute patent misuse. The point is not avoided by the district court's circuitous reasoning as to the words "otherwise

entitled". Whether or not USG is "otherwise entitled" to recover cannot be known until issues joined in the Iowa suits have been heard and determined. That question cannot be decided in the summary manner adopted below.

III.

The district court erroneously decided the issues of misuse and purge during the 1948-1951 period without receipt of any evidence. Those issues involve a factual inquiry and cannot be decided preliminarily, as a matter of law and without a hearing on pertinent facts at issue.

The summary disposition of those issues also ignores the facts that the record here was compiled over twelve years ago; that the evidence supporting antitrust violation did not extend beyond the year 1941; that there has been no price fixing under the licenses since July 8, 1941; that the pertinent period in the USG suits is from February 1948 to May 15, 1951; and that the 1953 petitions and answers thereto, as well as the USG pending suits in the Iowa court, join misuse and purge issues on which no opportunity has ever been given for proof. There is no presumption in law of the continuance of illegal conduct.

The district court misconstrued USG's contentions regarding certain purging facts already in the record. The burden was upon the petitioners to establish by evidence actual misuse of USG patents in the 1948-1951 period, whereupon USG would have the right to introduce evidence showing purge. Understanding these issues would be subject to proof, USG nevertheless referred to certain facts of record (for illustrative purposes and not as the only facts of purge) which would preclude a conclusion against USG as a matter of law, and even resolve the purge issue in its favor (*i. e.* nonuse of the price provisions since July 8, 1941; rescission of the licenses by act of the

parties in 1948; offer by USG in 1949 of new licenses avoiding all objectionable provisions; purging effect of the 1949 decree adjudicating the licenses unlawful and enjoining their performance and of this Court's injunctive order of May 29, 1950). The court's rejection of these purging facts and their cumulative effect, and its treatment of them as the only purge evidence, was erroneous and inequitable. They are certainly sufficient to prevent a summary judgment of non-purge, which is the effect of the lower court's ruling.

The doctrine of patent misuse and purge is of relatively recent development, having its genesis in the decisions of this Court. The district court's ruling highlights the need for a clarification by this Court of the procedure for determining such issues, as well as the extent of the doctrine.

IV.

It is axiomatic that an injunction must be precise and specific; that the effect of a decree, as an adjudication upon parties, is determined by the issues actually presented and decided; and that a court may not under the guise of construction add new substantive provisions which were omitted or withheld in the first instance.

These principles require the conclusion that the 1951 decree did not and was not intended to bar USG from seeking compensation for use of its patents in the 1948-1951 period, and that the 1954 amendment to compel dismissal of the USG suits was wholly unwarranted.

There is no injunctive provision in the 1951 decree prohibiting such a suit. In fact, the compulsory licensing provisions require payment of reasonable compensation for use of the patents. While the Government contends that Article IV, declaring the licenses illegal, is sufficient to bar a count based on those licenses, it does not claim

that Article IV operates as a bar to *quantum meruit* or infringement claims. The lower court concedes that Article IV does not, either expressly or by fair implication, cover such claims.

Any modification of the 1951 decree must be in accord with its basic purposes. This being originally a Government antitrust suit for Sherman Act violation, the basic purposes of the decree were to give adequate relief to prevent future violations through license agreements or other concerted actions. It is not suggested that the decree has failed in any way to do so. The district court's action in enjoining the pending suits does not effectuate the purposes of the decree, but improperly injects into the decree a subject matter of a purely private nature. The 1954 amendment creates new "rights" in the co-conspirator licensees. It permits them to grab the reins in a Government antitrust suit and amend the 1951 decree to protect and enforce their spurious private "rights" thus created.

The 1954 modification also violates the principle that rendition of a judgment does not conclude parties who are not adversaries under the pleadings as to their rights *inter se* upon matters they did not litigate or have an opportunity to litigate between themselves. No issues were presented to the district court, prior to the 1953 petitions and answers, as to the right of USG to recover for use of its patents *pendente lite.*

The appealed-from decree of September 9, 1954, is unsupportable as a proper exercise either of the court's inherent powers to amend or of the limited reservation of jurisdiction in Article X.

ARGUMENT.

I.

THE DISTRICT COURT ERRED IN ASSUMING JURISDICTION TO ENTERTAIN THE 1953 PETITIONS AND ENJOIN THE SUITS THERETOFORE COMMENCED BY USG IN OTHER FEDERAL COURTS OF COMPETENT JURISDICTION.

At the threshold, a question is presented as to the jurisdiction of the district court to entertain the petitions for modification of the 1951 final decree, either under the reservation contained in Article X (App. B, p. B 12) of that decree or under its inherent power of a court of equity.* Assuming, *arguendo*, that there was jurisdiction to entertain some part or all of the matters presented by the petitions filed below, there is the further question as to whether such jurisdiction should have been exercised to decide the misuse and purge issues and to compel dismissal with prejudice of the USG suits in other federal courts.

USG brought its suits against National and Certain-teed for compensation for their use of USG patents in the United States District Court for the Northern District of Iowa, where USG, National and Certain-teed have operated plants producing gypsum board for many years. It is a district in which National and Certain-teed produced gypsum board under their old 1929 license agreements, under their new license agreements taken under the 1951 decree, and in the intervening 1948-51 period during which time they did not pay USG for such use of its patents (R.

* Judge Cole dissented in the court below for the reason that the petitions "should be dismissed for lack of jurisdiction" (R. 1158, 1160, 1335).

607, 661-2, 788, 795, 1145-6, 1266, 1315). Clearly the Iowa federal court is one of competent jurisdiction and an appropriate forum for determining the issues raised by the USG complaints and the answers thereto filed by the respective defendants. Jurisdiction is expressly founded upon diversity of citizenship and upon the federal statutes authorizing patent infringement suits (28 U. S. C., Sections 1332, 1338, 1391, and 1400).

The corporate appellees nevertheless filed below their respective petitions for orders, modifications or directions "for the enforcement, construction or carrying out of the final decree of May 15, 1951." Those petitions purport to be brought pursuant to the reserved jurisdiction contained in Article X of the 1951 final decree (R. 604-5, 658). In reality, however, the "relief" they seek is not "for the construction or carrying out" of the decree or "for the enforcement of compliance therewith." Rather, it is to obtain an implementation of the decree by including additional restraints against USG so as to insulate the corporate appellees against claims for their use of USG's patents, for which they have not paid.* Appellant contends that the successful effort of the corporate appellees in the court below to have the final decree modified to adjudicate private rights as between USG and its co-defendant licensees is beyond the court's jurisdiction, either under the Article X reservation or under the inherent power of a court of equity subsequently to amend its decrees.

* The briefs of National and Certain-teed filed in the district court in support of their petitions clearly show that what they sought was an implementation of the 1951 decree to avoid the USG suits against them (Cert. R. 774-5; Natl. R. 775-6). As shown elsewhere in this brief (*supra*, pp. 69-74) it is no part of the basic purposes of the 1951 decree to punish USG by confiscating its patents, in whole or in part, or to reward the licensee defendants by giving them free use of valuable patent rights of USG for any period of time.

(a) While Article X (App. B, p. B12) has its counterpart in other antitrust decrees,* it is a more limited reservation of jurisdiction than similar provisions in other cases. Thus many decrees expressly reserve jurisdiction to grant other and further relief,** or to "amend" or "modify" or "enlarge" the provisions thereof.***

Obviously Article X of the 1951 decree does not reserve jurisdiction to modify the decree by enlarging its prohibitions as is done by the 1954 amendment. Such action

---

* For example, *U. S.* v. *National Lead Co.*, 63 F. Supp. 513, 535 (S. D. N. Y. 1945); *U. S.* v. *Union Pacific Ry. Co.* (D. Utah 1911) Decrees and Judgments in Federal Anti-Trust Cases, p. 229; *U. S.* v. *Great Lakes Towing Co.* (N. D. Ohio 1915) Decrees and Judgments in Federal Anti-Trust Cases, pp. 257-8; *U. S.* v. *Cleveland Stone Co.* (N. D. Ohio 1916) Decrees and Judgments in Federal Anti-Trust Cases, p. 420.

** *U. S.* v. *Imperial Chemical Industries*, 105 F. Supp. 215, 220 (S. D. N. Y. 1952) ("to either modify the relief granted or to grant such other or additional relief required to accomplish the purpose of the decree * * *"); *Sugar Institute* v. *U. S.*, 297 U. S. 553, 605 (1936) ("for the purpose of '* * * enlarging or modifying its terms'."); *U. S.* v. *Paramount Pictures*, 70 F. Supp. 53, 76 (S. D. N. Y. 1947) ("for other or further relief."); *U. S.* v. *Hartford-Empire Co.* (N. D. Ohio 1946) ("for a modification of the judgment to provide for further relief against or for the dissolution of Hartford-Empire Company, or for modification of this judgment in any manner, if it should appear that the operation of its terms is failing to bring about a correction of the violations of the federal antitrust laws which are the basis of this judgment"). See also *U. S.* v. *Kosher Butchers' Assn. of Los Angeles* (S. D. Cal. 1955), 1955 Trade Cases 67,988 (para. X); *U. S.* v. *Columbia Artists Management, Inc.* (S. D. N. Y. 1955), 1955 Trade Cases 68,173 (para. VII); *U. S.* v. *National Automotive Parts Assn.* (E. D. Mich. 1954), 1954 Trade Cases 67,749 (para. VII); and *U. S.* v. *Blaw-Knox Co.* (W. D. Pa. 1954), 1954 Trade Cases 67,750 (para. X). See also decrees in Decrees & Judgments in Federal Anti-Trust Cases, pp. 113, 262, 309, 331, 376, 403, 415.

*** See final decrees in *Lorain Journal* v. *U. S.*, 342 U. S. 143, 159 (1951) (para. VII); *U. S.* v. *American Can Co.* (N. D. Cal. 1950), 1950-51 Trade Cases 62,679 (para. XI); *U. S.* v. *Minn. Mining & Mfg. Co., et al.* (D. Mass. 1950), 1950-51 Trade Cases 62,724 (para. XII). The following are representative of the more than 100 consent decrees entered in the last five years containing such provisions: *U. S.* v. *International Business Machines Corp.* (S. D.

therefore conflicts with *United States* v. *International Harvester Co.*, 274 U. S. 693, 702-3 (1927), where this Court unanimously affirmed dismissal of a supplemental petition by the Government to enlarge the injunctive provisions of a decree theretofore entered by substituting, for a requirement of that previous decree that the company be divided into separate and distinct corporations, a new requirement that the company limit its sales agency in any city to a single representative and sell three of its harvesting machine lines to independent manufacturers of agricultural implements. This Court held that such an action would be repugnant to the decree upon which defendant had in good faith relied for many years.

(b) The limitation laid down in *International Harvester* undoubtedly accounts for the practice often followed of including an express reservation of jurisdiction to "modify" the decree. But even where there is an express reservation of jurisdiction subsequently to "modify" a decree, it is clearly established that the power to modify is not unlimited. Such a reservation is subject to the same limitation as applies where the court is exercising its inherent power to amend. It may only be exercised to the end of effectuating the basic purposes of the original decree. *Chrysler Corporation* v. *United States*, 316 U. S. 556, 562 (1942); *Hughes* v. *United States*, 342 U. S. 353, 357 (1952). The 1954 amendment does not serve to effectuate the basic purposes of the 1951 decree (*infra*, Point IV, pp. 69-74), and therefore cannot be sustained as a

---

N. Y. 1956), 1956 Trade Cases 68,245 (para. XIX); *U. S.* v. *Western Electric Co., Inc., et al.* (D. N. J. 1956), 1956 Trade Cases 68,246 (para. XVII); *U. S.* v. *Hilton Hotels Corp.* (N. D. Ill. E. D. 1956), 1956 Trade Cases 68,253 (para. VIII); *U. S.* v. *General Mills, Inc.* (D. Mich. 1955), 1955 Trade Cases 67,979 (para. X), 68,118 (para. IX); *U. S.* v. *Pittsburgh Crushed Steel Co.* (D. Ohio 1954), 1954 Trade Cases 67,892 (para. XIX). See 1952, 1953, 1954, 1955, 1956 Trade Cases.

proper exercise of jurisdiction under the court's inherent power to amend.

(c) It is clear that only the Government is entitled to seek to enforce an antitrust decree in the manner sought by the corporate appellees. In *Buckeye Co.* v. *Hocking Valley Co.*, 269 U. S. 42 (1925) this Court considered the right of a party, other than the Government, to attempt to enforce an antitrust decree. In affirming the denial of an intervening petition subsequently brought, this Court said (pp. 48-49):

> "Third, even if we assume that the United States might apply under the reservation clause to the District Court to direct the cancellation of the mortgage lien on the coal lands and the covenant as to the royalty, on a showing that they were being used to continue the illegal combination condemned in the main decree, it could only be done in the interest of the public represented by the United States. The petition of the United States on this head was denied by the court below, and the United States has taken no appeal. The status of the two coal companies in the court below and here is merely that of informers. Their attitude, if it is nicely analyzed, seems to be, that unless the mortgage lien on their coal lands to secure the railway bonds, and the 2 cents royalty, are cancelled, they may be induced to enter a conspiracy with the Railway Company by which the Railway Company will grant them unlawful and discriminating favors in railway transportation to enable them to increase the coal mined and the royalty to be applied to redeem the bonds. They wish to have this temptation to crime on their part removed, and incidentally have themselves relieved from obligations which were recognized by the court as valid and binding in the judicial sale of the entire capital stock of the Buckeye Company, and which, as against them have been adjudged valid by the courts of Ohio. The United States, which must alone speak for the public interest, does not appear

with them on this appeal. They have therefore no *locus standi. United States* v. *Northern Securities Co.*, 128 Fed. 868."

This doctrine has often been applied where private parties have attempted to modify or enforce a decree in antitrust suits brought by the United States. *United States* v. *Bendix Home Appliances*, 10 F. R. D. 73, 75 (S. D. N. Y. 1949); *United States* v. *General Electric Co.*, 95 F. Supp. 165 (D. N. J. 1950); *United States* v. *R.C.A.*, 3 F. Supp. 23 (D. Del. 1933); *United States* v. *Columbia Gas & Electric Co.*, 27 F. Supp. 116, 119 (D. Del. 1939); *United States* v. *Northern Securities Co.*, 128 Fed. 808, 813 (S. D. Minn. 1904). In the *Bendix Home Appliances* case the court said (10 F.R.D., p. 75):

> "Analysis of the petition reveals that there is only one immediate end which the petitioners truly seek to attain—the restraint of the suits now pending in the municipal courts of the City of New York for the recovery of past due royalties. There is not the slightest suggestion that they are subjected to the effects of the unlawful conduct condemned by the decree other than by the prosecution of these suits."

In the instant case the Government has limited its interest in the matter to questioning the propriety of the prosecution of the counts based upon the license agreements which have been declared illegal, null and void by the 1951 decree. There is no dispute between the Government and USG as to the *quantum meruit** and infringement claims not being in violation of the 1951 decree or in conflict with its basic purposes. On this all important part of their contentions, then, the corporate appellees are in the position of seeking, without the support of the Govern-

* Reference herein to the *"quantum meruit"* claims or counts includes both Count III, designated by the lower court as an *indebitatus assumpsit* count, and Count IV of the pending USG suits.

ment, to "enforce" the decree by modifying it in a manner which inures greatly to their financial benefit. It is an attempt to inject into the case a private controversy between co-defendants in the prior action. Under the authorities, such an attempt should be rejected. As was said in *Columbia Gas & Electric, supra,* (27 F. Supp. at p. 119):

> "Petitioner has no right to encumber the main action which is being conducted by the Attorney General with extraneous issues of a private nature."

(d) Jurisdiction may not properly be based on the theory that the court in which the antitrust action was tried thereby acquired some paramount jurisdiction over the controversy arising out of the corporate appellees' use of USG patents (R. 610-11, 664, 667, 671). Such a contention is answered by this Court's disposition of a similar claim in *Aluminum Company* v. *United States,* 302 U. S. 230 (1937). There, following an antitrust proceeding and decree in Pennsylvania, a second suit was brought by the Government in New York. After a hearing, the New York court dismissed Alcoa's petition for an injunction against prosecution of the New York suit. In affirming, this Court recognized that if the subject matter were identical, the federal court first acquiring jurisdiction might enjoin proceedings in the second court, but, holding that the facts did not warrant such action there, said (pp. 232-233):

> "Plainly, and there is no suggestion to the contrary, appellant cannot succeed unless the Pennsylvania and New York suits are substantially identical in subject matter and issues. • • •
>
> "The court below found: 'The subject matter parties, issues and relief sought in the New York suit differ substantially from those in the 1912 suit. • • •' It concluded that the two suits were dissimilar in respect of parties defendant, subject matter, issues

and relief sought, and that no basis for an injunction had been shown.

"We have heard counsel, examined the record and briefs, and are unable to say that the court below erred either in respect of its findings or conclusion."

In this case there are marked differences between the parties and the issues in the several cases. This was a Government suit against the defendant companies and certain of their officers for violation of the Sherman Act; the case centered on the concerted action of the defendant companies; and no issues were joined as between co-defendants. In each USG suit, issues are solely between USG, as plaintiff, and the single defendant in the suit as to use by such defendant of USG patents and the proper compensation to be paid for such use. The differences as between parties, issues and relief sought here are infinitely greater than in the *Aluminum* case.

(e) Finally, assumption of jurisdiction by the court below cannot be justified on the grounds of avoiding a multiplicity of suits or avoiding conflicting judgments of several courts. Appellant does not contest either of these traditional grounds for equitable jurisdiction. However, here the district court's reason for assuming jurisdiction to avoid multiplicity of suits was expressly premised upon its ruling, erroneous as will be later demonstrated (Point II, *infra*, pp. 36-47), that misuse of patents was shown to exist, as a matter of law, by reason of the USG suits for compensation for use of its patents (Conclusions 13, 15; R. 1157-8).

There is also absent here the factual situation usually found where jurisdiction is taken to avoid multiplicity of suits. Thus the Iowa suits against National and Certain-teed have been and undoubtedly will continue to be treated together or consolidated by the Iowa court (R. 741, 748, 759, 766, 773). The sole judge in the United States District

Court for the Northern District of Iowa (28 U. S. C. 133) can hardly be expected to rule in a conflicting manner on these issues in the National and Certain-teed suits. At the time the court below assumed jurisdiction, issue was not joined in the Newark and Ebsary suits (R. 1308), and as shown, those suits have since been settled and dismissed. The risk of conflicting judgments was entirely too speculative a basis for the district court to assume jurisdiction.

It is quite immaterial that other federal courts may have occasion to construe the 1951 final decree. *Northern Securities Co.* v. *United States,* 193 U. S. 197 (1904); *Harriman* v. *Northern Securities Co.,* 197 U. S. 244 (1905); *Standard Oil Co.* v. *Markham,* 64 F. Supp. 656 (S. D. N. Y. 1945; modified and affirmed, 163 F. 2d 917 (2d Cir. 1947) cert. denied 333 U. S. 873; *Aluminum Company* v. *United States,* 302 U. S. 230 (1937).* The defense of unclean hands because of patent misuse and the issue of purging need not be, and normally are not, decided by the same court in which a prior antitrust decree was entered. In

* It is a common occurrence under 15 U. S. C. 16 for one federal court to construe an anti-trust decree of another federal court. In *Emich Motors Corp.* v. *General Motors Corp.,* 340 U. S. 558 (1951), a federal court in Illinois was called upon to construe such a decree of a federal court in Indiana. The final decrees of a federal court in New York in the motion picture cases (*United States* v. *Paramount Pictures, Inc., et al.,* 1948-49 Trade Cases 62,377; *United States* v. *Loew's Inc., et al.,* 1950-51 Trade Cases 62,573) have been construed by federal courts, among others, in California (*Fanchon & Marco* v. *Paramount Pictures,* 100 F. Supp. 84 (D. Calif. 1951), cert. denied 345 U. S. 964); Colorado (*Loew's Inc.* v. *Cinema Amusements, Inc.,* 210 F. 2d 86 (10th Cir. 1954)); Illinois (*De Luxe Theatre Corp.* v. *Balaban & Katz Corp.,* 95 F. Supp. 983 (N. D. Ill. 1951)); Louisiana (*Don George, Inc.* v. *Paramount Pictures,* 111 F. Supp. 458 (D. La. 1951)); Maryland (*Theatre Enterprises* v. *Paramount,* 346 U. S. 537 (1954)); Minnesota (*Homewood Theatre* v. *Loew's, Inc.,* 110 F. Supp. 398 (D. Minn. 1952)); Missouri (*Twentieth Century-Fox Corp.* v. *Brookside Th. Corp.,* 194 F. 2d 846 (8th Cir. 1952), cert. denied 343 U. S. 942); Utah (*Christensen* v. *Paramount Pictures,* 95 F. Supp. 446 (D. Utah 1951)).

Standard Oil Co. v. *Markham, supra,* where a New York federal court construed an earlier antitrust decree of a New Jersey federal court, the Court of Appeals said (163 F. 2d at p. 934):

> "* * * The District Court seems, however, to have rested its refusal to act upon some feeling of comity or unwillingness to interfere with the acts of the court which had entered the consent decree * * *; it was familiar with all details of this complicated question, which had never been before the court in New Jersey in its present and true setting. It [the New York federal court] was the court properly fitted to make the decision."

In *United States* v. *Bendix Home Appliances,* 10 F. R. D. 73 (S. D. N. Y. 1949) the court that had entered an antitrust decree said (p. 77):

> "I do not see why the adjudication of that defense [misuse] should confront the municipal courts of New York with any greater difficulty than that presented by any other written instrument."

See also *United States* v. *Libbey-Owens-Ford Glass Co.* (N. D. Ohio 1955) 1955 Trade Cases 68,207 (p. 70,973).

The court erred in superimposing its jurisdiction and amending the 1951 decree to summarily dispose of the pending USG suits in other federal courts of competent jurisdiction.*

---

* The district court's findings of fact and conclusions of law, which are erroneous in the light of the arguments in the foregoing Point I and the subsequent Points II, III and IV of this brief, and which appellant seeks to have set aside, are specified in the USG Motion for New Trial (R. 1161-2) and in its Points and Authorities in support thereof (R. 1163, 1190-1) filed in the court below. With few exceptions, this covers appellant's specification of errors in the findings and conclusions and will not be hereinafter reiterated.

II.

THE DISTRICT COURT ERRED IN HOLDING THAT THE FILING OF THE USG SUITS AGAINST ITS CO-DEFENDANT LICENSEES IN THE ANTITRUST CASE TO RECOVER REASONABLE COMPENSATION FOR THE USE OF ITS PATENTS CONSTITUTES A MISUSE OF USG'S PATENTS.

The district court has erroneously held that a continuing unpurged misuse of USG patents exists, as a matter of law, because USG has sought compensation from the corporate appellees for their use of its patents in the years 1948-1951. On the basis of that holding, the district court has concluded that USG should be compelled to dismiss all counts of its pending suits with prejudice.

That determination was not and can not be based on any evidence as to the factual situation existing during the 1948-1951 period. Not only did the evidence in the original antitrust proceeding stop with the year 1941, but no evidence has been received by the district court on the issues of patent misuse and purge raised by the 1953 petitions and USG's answers thereto.

Nor can this determination be based upon any claim that USG is now using its patents to fix prices or monopolize trade in the gypsum industry by license agreements or by other acts or courses of action, or is attempting to enforce the price limitation provisions of the old patent license agreements. In fact, USG has not fixed prices under its licenses since July 8, 1941 (1947 R. 4143; R. 789, 1150). Moreover, during a substantial part of the 1948-1951 period USG and the corporate appellees were all effectively restrained by injunctive orders of the district court and of this Court against any misuse of patents by operation under the price provisions of the old license agreements or otherwise. No suggestion has been made that any of such injunctive provisions was violated in any

manner. Indeed, at the June 9, 1953 hearing the corporate appellees assured the district court that no claim of any existing antitrust violation by USG was being made, except as the filing of the suits might be considered such a violation (R. 699).

That the district court concluded that the mere pleading by USG of Counts I and II of its complaints in the compensation suits constituted a misuse of patents warranting its amendment of the 1951 final decree is amply borne out by its opinion of July 6, 1954, and by its findings and conclusions of December 9, 1954.

Thus, in its opinion of July 6, 1954, the district court observed (R. 1014-15):

> "The USG suits now pending show conclusively that even yet it is striving to enforce the royalty provisions of the illegal patent license agreements.
> "We think such an attempt is clear misuse of its patents.* * *"

In its findings and conclusions of December 9, 1954, the district court concluded (R. 1157):

> "The course of conduct of USG, * * * must be construed as meaning that USG has continued after May 15, 1951 to misuse its patents by seeking recovery, directly and indirectly, on the illegal license agreements up to this time. The attempt by USG to enforce the royalty provisions of the illegal patent license agreements is clear misuse of its patents; such misuse yet continues; and to allow prosecution of these suits, would weaken the effectiveness of the Final Decree" (Conclusion 13).

Thus it is clear that the district court's amendment of the 1951 decree is premised upon the erroneous view that prosecution of the USG compensation suits constituted a misuse of its patents. That conclusion is not supported by any precedent, and it puts the decision of the district

court in conflict with (a) the rulings of this Court in the *Hartford-Empire* case*; (b) the requirements of the *Federal Rules of Civil Procedure,* particularly Rule 8 thereof; and (c) the provisions of 35 U. S. C., Sec. 271(d).

(a) This Court in *Hartford-Empire* recognized that it is not a violation *per se* of the anti-trust laws for a patentee that has illegally licensed its patents to seek reasonable compensation for use of those patents during the pendency of antitrust litigation. Thus, in its first opinion in the *Hartford-Empire* case (323 U. S. 386, 411), this Court directed that Hartford-Empire be paid those royalties that during the pendency of that case would have gone to it under the terms of its license agreements, but which, in fact, had been collected by a court-appointed receiver. The Government petitioned for a rehearing from that decision, asserting that there were ambiguities in the opinion. This Court then, with appropriate instructions, ordered the district court to supervise the turn-over to Hartford-Empire of the royalties. Under its instructions from this Court, the principal duty of the district court was to decide whether Hartford-Empire, during the pendency of the litigation, had been guilty of some added violation of the antitrust laws that disqualified it from collecting compensation for the use of its patents in that period. This Court did not regard assertion by Hartford-Empire of claims for use made of its patents while litigation was pending as misuse of those patents in violation of the antitrust laws. And the district court, when it found that Hartford-Empire had not violated the antitrust laws *pendente lite,* ultimately ordered a sub-

* *Hartford-Empire Co., et al.* v. *United States,* 323 U. S. 386 (1945), and *Hartford-Empire Co., et al.* v. *United States,* 324 U. S. 570 (1945).

stantial part of the royalties that had been collected by the receiver to be paid over to Hartford-Empire.*

As stated, the corporate appellees conceded at the June 9, 1953 hearing that USG was not violating the anti-trust laws except as the filing of the suits against them might be considered such a violation (R. 699). Moreover, this Court noted, when passing on the appeal of the Government from the 1949 decree, that both that summary decree and its underlying adjudication of limited violation of the Sherman Act accepted

> "as true the underlying facts in defendants' proof by proffer. * * * That conclusion entitled the Government only to relief based on that finding [the Sherman Act violation] and the proffered facts" (340 U. S. 76, 88).**

The proffered facts that underlay the 1949 decree, and that alone underlie the 1951 decree and the appealed from 1954 amendment, established that the invalidated license agreements were entered into to dissolve complicated conflicts over patents that theretofore had been thwarting development of wallboard technology (R. 36-44).

---

* The ultimate settlement between Hartford and its various licensees, which was approved by the district court, resulted in Hartford's receiving a total of $7,267,049.82 from its licensees for use of Hartford-Empire patents, machines and services during the *pendente lite* period ("Final Report and Account of Operations of Receiver of Hartford-Empire Co." (p. 5) filed December 20, 1945, and approved on January 17, 1946, in Civil Action No. 4426, U. S. District Court, N. D. Ohio, W. D.).

** Defendants' offer of proof herein negated the material facts of wrong doing alleged in the complaint except that the defendant companies had entered into industry-wide license agreements with price limitation provisions (R. 36-54, 56-57). In dismissing USG's 1950 appeal, this Court accepted the district court's adjudication of law violation as being limited to the one undisputed question of defendants' concerted action through the licenses, and accepting as true the underlying facts of defendants' proffered proof. This Court expressly recognized the "narrow limits of the proven violation" (340 U. S. 76, 88, 90). See also *Timken Roller Bearing Co.* v. *United States*, 341 U. S. 593, 600 (1951) and *International Brotherhood* v. *NLRB*, 341 U. S. 694, 706 (1951).

The record does not support an inference that freedom of entrance had been foreclosed to any of those segments of the economy affected by the illegal patent licenses. The record does not support a claim that there had ever been exorbitant royalty rates. Indeed, the "reasonable" royalties that have been paid under the compulsory patent license agreements granted by USG since the final decree of May 15, 1951, are calculated at the same rate, as to the patented goods, as were the royalties charged under the outlawed agreements (R. 605, 658, 783).

On facts favoring compensation that were far less persuasive than those in the instant action, this Court, in the *Hartford-Empire* case, held itself compelled to allow reasonable compensation to be paid to the patentee for use of its patents during a comparable period. Proscription by the district court of the USG compensation suits would seem to be relief, therefore, of a kind that this Court has said may not be granted. It is, in short, an illegal penalty, imposed "in the guise of preventing future violations" of the Sherman Act. See *Hartford-Empire Co.* v. *United States*, 323 U. S. 386, 409 (1945); and *United States* v. *Oregon State Medical Society*, 343 U. S. 326, 333 (1952).

It can make no difference that the defendant licensees in *Hartford-Empire* had paid royalties and were not infringers, as the corporate appellees suggest in their motions to affirm (Nat'l. 17-18, Cert. 20-21). The royalties collected were earmarked and could have been returned easily had this Court determined that because of prior misuse Hartford was not to be paid for use of its patents *pendente lite*. But there a procedure was approved which permitted Hartford-Empire to obtain in excess of $7,000,000 of the royalties paid the Receiver, whereas in this case the district court has denied USG the right to seek compensation for the actual use of its patents during a similar period.

(b) The misuse of patents ruling is also in conflict with the *Federal Rules of Civil Procedure,* particularly Rule 8 thereof. This conflict arises because the district court held both that the final decree of May 15, 1951,

> "• • • did not expressly nor impliedly cover the character of suits now brought by USG for infringement or for *indebitatus assumpsit* or for *quantum meruit*"

and that

> "The USG suits now pending show conclusively that even yet it is striving to enforce the royalty provisions of the illegal patent license agreements.
>
> "We think such an attempt is clear misuse of its patents • • •."

The district court did not regard those twin holdings as anomalous, because, to the district court, the mere pleading by USG of Counts I and II in its compensation suits amounted to a misuse of patents.

But at least since 1938, it has been the rule in courts of the United States that the statement of separate causes of action or counts in a pleading is only a statement of the same claim in the light of different legal theories. Although "count" pleading is permitted under federal practice, the sole function of a complaint in a district court is nonetheless to give a simple statement in sequence of the events which have transpired, coupled with a direct claim by way of demand for judgment of what the plaintiff hopes and expects to recover. Once a plaintiff has stated his claim, either in separate counts or as a simple statement of events, the final theory of recovery is for the court rather than the pleader. This concept of federal pleading is

clearly expressed in Rule 8 of the Federal Rules of Civil Procedure.*

When the complaints against National, Certain-teed, Ebsary and Newark were being drafted, USG was faced with the problem of stating a claim that would cover any one of several situations that might develop at the trial. Clearly, if it could be established that the license agreements had been abandoned and repudiated by the parties following the first decision of this Court, or had been voided by that decision, then, of course, the subsequent use of the patents laid the users open to claims of *quantum meruit* or infringement liability. On the other hand, if USG were to confine its claim to one of *quantum meruit* or infringement and a defendant were to defend by claiming the right to use the patent under its old license agreement,** USG would be confronted with the possibility of a court concluding that there was an unasserted claim under the contract for all or part of the pertinent period that defeated recovery on *quantum meruit* or for infringement.***

---

* Thus, Subsection (a) of Rule 8 reads in part:

"Relief in the alternative or of several different types may be demanded."

and Subsection (e) of the same Rule allows a party to

"* * * set forth two or more statements of a claim * * * alternatively or hypothetically, either in one count * * * or in separate counts * * *. When two or more statements are made in the alternative and one of them if made independently would be sufficient, the pleading is not made insufficient by the insufficiency of one or more of the alternative statements. A party may also state as many separate claims * * * as he has regardless of consistency and whether based on legal or equitable grounds or on both. * * *" (See App. C1).

** The eighth defense of National to Count V of the Iowa suit actually raises this very defense (R. 723-724).

*** That such a possibility existed seemed likely for two reasons: first, the district court, in entering the 1949 and the 1951 decrees, did not strike down the USG license agreements because they were inherently illegal or improper, but rather because of a conspiracy established by the concerted action among the defendant com-

Stating different theories under separate counts was a proper precautionary measure authorized by the Federal Rules of Civil Procedure. No authority or precedent has ever suggested that such caution in pleading would possibly constitute evidence of continued misuse of a patent, as a matter of law, particularly when the various counts only assert money claims for royalties or compensation for the actual use of plaintiff's patents.

All USG attempts to do in its now pending suits is to recover reasonable compensation for the use of its patents, with or without its permission, upon whatever theory the trial court might determine to be appropriate. If Counts I and II were held to be without merit, the worst consequence should be the dismissal of those counts. In holding that USG, in pleading Counts I and II, thereby forfeited its right to recover for the use of its patents, the district court has severely penalized it for pleading alternate and inconsistent claims in accordance with the Federal Rules of Civil Procedure.

The Government has implicitly acknowledged the correctness of the above analysis. The petition of the Government only requested that the district court expressly adjudge that the invalidated license agreements could not be used to bottom any theory of recovery to USG. In support of this the Government argued that when a court has

---

panies, which conspiracy was collateral to each separate license agreement as such; and, second, the royalty provisions of those license agreements are severable from the price limitation provisions and therefore could be deemed to support recovery of royalties during the period the license was in effect, even though USG would not be able to enforce the price-fixing provisions. The first point is illustrated by this Court's finding of conspiracy by concerted action "despite the assumed legality of each separate patent license" (333 U. S. at p. 401); and the second by this Court's injunction *pendente lite* of performance of any of the "price fixing" provisions of the license agreements but without enjoining use of the patents or payment of royalties thereunder (339 U. S. 960).

declared a patent licensing contract "illegal, null and void" under the antitrust laws, that decision should remove the patent license as a font of rights justifying payment of royalties.

But to accept the contention of the Government does not force, as the Government recognized, the conclusion that the mere alternative submission of such a legal theory to a court is a misuse of patents. Engrossment in a federal pleading of a count on contracts debilitated by an antitrust decree cannot be, under modern concepts of pleading, a misuse of those patents that the contracts purport to license.

(c) The decision of the district court that a continuing misuse by USG of its patents exists, as a matter of law, because USG seeks compensation from its co-conspirators for their use of USG's patents, conflicts with the public policy now conclusively established by the recent codification of the patent laws.* 35 U. S. C., Section 271(d), provides in its relevant portions (see App. C3):

> "No patent owner otherwise entitled to relief for infringement * * * shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: * * * (3) sought to enforce his patent rights against infringement or contributory infringement."

The right of a patentee to seek compensation for use of its patents is clearly an enforceable right within the meaning of the new codification. One who merely does what he is authorized to do by statute is not guilty of misuse of his patents. In *Cole* v. *Hughes Tool Company*, 215 F. 2d 924, 935 (10th Cir. 1954), cert. denied 348 U. S. 927, the court refused to hold that the bringing of patent in-

* This codification (35 U. S. C.) of the patent laws went into effect January 1, 1953. The USG compensation suits were filed thereafter.

fringement suits was a misuse of patents, citing 35 U. S. C. 271 (d).

Since it is the declared policy of that codification that mere bringing of a patent infringement suit is not a misuse of patents, then *a fortiori,* a suit for infringement joining counts for compensation claims on other theories, including counts on a license agreement (which, *inter alia,* is a grant of immunity from a suit for infringement), cannot itself constitute a misuse of patents.

The district court apparently misunderstood this contention of appellant, for in its memorandum, filed June 30, 1955, denying the motion of USG for a new trial, it sought to pose as an objection to the USG position a contention that Congress cannot have intended by Section 271(d) to give a patentee a protection superior to the broad public policy of the Sherman Act, or to nullify the power of a court to effectuate the purposes of an antitrust decree (R. 1337).

Of course no such claim was ever made by appellant. It was because the district court had ruled that the mere bringing of the USG suits constituted a misuse sufficient to bar prosecution of the suits (R. 1014-15, 1157) that appellant, in its Motion for New Trial, cited Section 271(d) as being in direct conflict with such a ruling (R. 1165).

The district court in its supplemental memorandum (R. 1337), rather than meeting the point head-on, indulged in circuitous reasoning. After misinterpreting the USG position, the court said that the vital words in the statute are "otherwise entitled". The court then proceeded to hold that since USG is still misusing its patents (by reason of its suits to recover compensation including a count on the license agreements), it is not "otherwise entitled" to recover, and therefore not within the statute providing that

a patent owner shall not be guilty of misuse by having sought to enforce his patent rights.

In further support of its conclusion that USG is not "otherwise entitled" to recover, the court pointed out that it had determined to modify the 1951 decree by enjoining the USG suits, so as to effectuate the purposes of that decree, and that Section 271(d) cannot be construed as nullifying the power of a court to effectuate the purposes of an antitrust decree. The fallacy of this interpretation of "otherwise entitled" lies in the erroneous assumption that when the USG suits were brought the then unmodified 1951 decree forbade them, when the lower court had actually held in its main decision that the decree did not expressly or impliedly cover the *quantum meruit* or infringement counts (Conclusion 7, R. 1156).

Who knows whether or not USG was "otherwise entitled to relief" until the issues joined in the district court in Iowa have been heard and determined? Certainly the court below cannot hold in this proceeding that USG is not "otherwise entitled to relief", and therefore not within Section 271(d), on the fallacious reasoning in its memorandum and without the benefit of any evidence whatsoever as to the misuse and purge issues.

Moreover, disregard of Section 271(d) squarely conflicts with Article VII of the 1951 final decree, which expressly provides that nothing contained in the decree shall be deemed to have any effect upon the operation or activities of the defendants which are authorized or permitted by any present or future Act of Congress, or any amendment thereto (R. 570). The 1954 amendment thus destroys rights preserved to appellant by Article VII of the 1951 decree.

Needless to say, the district court, in its opinion, cites no authority for its unique misuse ruling. No other case has held that the mere bringing of a suit to recover

money alleged to be due under an unlawful license agreement, and in the alternative compensation for use of patents, constitutes without more misuse of a patent as a matter of law. It is an entirely novel proposition in support of which no authority can be cited.*

Not only does the ruling conflict with *Hartford Empire* (*supra*, pp. 38-40), but it is contrary to the only other case appellant has found presenting a similar situation. In *Park-In Theatres, Inc.* v. *Paramount-Richards Theatres, Inc., et al.*, 90 F. Supp. 730 (D. Del. 1950), aff'd 185 F. 2d 407, cert. denied 341 U. S. 950, the complaint alleged two causes of action: one for an accounting for royalties on a license agreement, and a second, in the alternative, for infringement. The court rejected defendants' motion for summary judgment on the infringement count even though it found that the existence of the license, the basis of the first count, constituted misuse. The court held that the issue of purge involved questions of fact which precluded granting summary judgment. It did not consider that the mere inclusion of a count on the license was misuse as a matter of law (90 F. Supp. at p. 736).

---

* Actions for direct infringement are to be distinguished from pre-patent-law-codification cases involving actions for contributory infringement such as *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661 (1944) and *Strocco Products, Inc.* v. *Mullenbach*, 67 U. S. P. Q. 168 (S. D. Calif. 1944). In fact, such decisions, holding that the filing of contributory infringement suits *per se* constituted an attempt to extend the scope of the patent to products outside the patent monopoly and therefore a patent misuse, were largely responsible for the enactment of 35 U. S. C. 271(d)(3). See Hearings before Sub-committee No. 3 of the House Judiciary Committee, on June 15, 1951, pp. 169-174 Committee Reprint. See also House Report No. 1923, 82d Cong., 2d Sess., p. 9, and Senate Report No. 1979, 82d Cong., 2d Sess. p. 8, to the effect that Section 271 (d)(3) "provides that one who merely does what he is authorized to do by statute is not guilty of misuse of the patent."

III.

THE DISTRICT COURT ERRED IN HOLDING THAT THE ISSUES OF PATENT MISUSE AND PURGE DURING THE 1948-1951 PERIOD COULD BE ADJUDICATED AS A MATTER OF LAW AND WITHOUT THE TAKING OF ANY EVIDENCE.

Another basic error in the district court's decree of December 9, 1954, and in its findings and conclusions entered on that date, lies in the determination, as a matter of law, of the issues of misuse and purge during the 1948-1951 period (F. 22, R. 1150-52; C. 11, 12, 13 and 15, R. 1157-58). This determination is reached notwithstanding the facts that the misuse relied on was the bringing of the USG suits in 1953 and that the court would thus deny USG any opportunity of presenting evidence of a purging of any misconduct with which it is charged.

(a) It is well established that questions of misuse and purge involve a factual inquiry into the circumstances of the particular case, and that such questions cannot be decided preliminarily as a matter of law without a hearing on all pertinent facts at issue. *Metals Disintegrating Co., Inc.* v. *Reynolds Metals Co.*, 92 F. Supp. 896, 898 (D. Del. 1950) and 107 F. Supp. 105 (D. Del. 1952), aff'd. 228 F. 2d 885, 889 (3d Cir. 1956); *Hawkinson* v. *Dennis*, 166 F. 2d 61, 63 (5th Cir. 1948); *Westinghouse Electric Corp.* v. *Bulldog Electric Products Co.*, 179 F. 2d 139, 146 (4th Cir. 1950); *Hoague-Sprague Corp.* v. *Bird & Son*, 91 F. Supp. 159, 163 (D. Mass. 1950); *Park-In Theatres* v. *Paramount-Richards Theatres*, 81 F. Supp. 466, 475 (D. Del. 1948) and 90 F. Supp. 730 (D. Del. 1950).

In *Metals Disintegrating*, the court denied defendant's motion for summary judgment, and in finding for plain-

tiff after a hearing on purge, listed four factual issues for determination (107 F. Supp. 105):

> "Past misuse is admitted [by the pleadings]. There remains for decision the following points: 1. the extent of the misuse; 2. whether the misuse has terminated; 3. the effect of the misuse; and 4. what consequences, if any, of the misuse have terminated."

In the *Westinghouse Electric* case, the Court of Appeals reversed a summary judgment for defendant, saying (179 F. 2d at p. 146):

> "* * * We may add that we concur in what was said by the Court of Appeals of the Fifth Circuit in *Paul E. Hawkinson Co.* v. *Dennis,* 166 F. 2d 61, 63, as to the inadvisability of granting summary judgment for a defendant charged with infringement of a patent on the ground of plaintiff's illegal conduct, unless it appears beyond question that relief should be denied on that ground. A party charged with infringement should not be permitted too easily to escape trial of the issue by raising a clamor to the effect that the holder of the patent alleged to have been infringed has done something that he should not have done. The public interest will be better served by a full hearing on all issues involved, before there is any attempt at dismissal in application of the clean hands doctrine, than by dismissal in advance of hearing on the motion of one who comes into court admitting for the purposes of his motion that he himself is guilty of infringement. * * *"

In *Hoague-Sprague,* the court denied a summary judgment motion, saying (91 F. Supp. at p. 163):

> "Whether such a satisfactory purge has taken place is, of course, largely a question of fact. * * * This is a question, then, which must be determined at a trial on the merits. * * * plaintiff is entitled to an opportunity to demonstrate to the court that such leases have been abandoned and that a satisfactory purge has

been effected; also to show that the defense of unclean hands is no longer applicable, at least as to its right to seek injunctive relief. The situation calls for evidence on the issue, not summary judgment."

(b) The district court erroneously overlooked that established principle. It also ignored the facts that the record before it was compiled over ten years ago and that the evidence on which the adjudication of antitrust violation was predicated did not extend beyond the year 1941; that there has been no price fixing under the licenses since July 8, 1941; that the pertinent period involved in the USG pending suits is from February 1, 1948 to May 15, 1951; and that the 1953 petitions and USG's answers thereto, as well as USG's pending suits in the Iowa federal court, join issues of fact with respect to misuse and purge during the pertinent period—issues as to which no opportunity has ever been given for the taking of evidence.

The district court found as a fact that USG did not purge itself of its patent misuse prior to May 15, 1951 (F. 11, R. 1157). Nowhere did it determine exactly of what this misuse consisted. It may be suggested that inferentially it found that the unpurged misuse was that established by the proceedings of record in the antitrust case. But since proof of that misuse went no farther than 1941, it cannot be said to have established misuse in the 1948-1951 period, unless there is some presumption of continued misuse which can be used to supply the missing connection. Neither the appellees nor the lower court have suggested that there is any such presumption. On the contrary, National alleged in its petition (Claim II) that USG continued to misuse its patents during the 1948-1951 period, the effects of which were not dissipated until at least May 15, 1951, and specifically alleged several kinds of misuse during that period (R. 611). No proof, however, was offered or received in support of those allegations,

although they were denied by the answer of USG (R. 788-9, 797-8), and National asserted at the June 9, 1953 preliminary hearing that its Claim II was based upon a misuse of patents as to which issue there would probably be questions of fact (R. 676-8).*

There can be no presumption in law of the continuance of illegal conduct.** In early 1948 the opinion of this Court established *prima facie* the illegality of the USG patent licenses, from which, if there be any presumption, it is that the law as thus declared has been obeyed since that time.***

---

* That patent misuse and purge present factual issues was acknowledged by the corporate appellees in the following colloquy between Judge Worley and the attorney presenting the main argument in opposition to the USG motion for new trial (R. 1294-95):

"Judge Worley: May I ask you a question there, please? Whether misuse is present is always a question of fact, is it not?

"Mr. Rosenman: Yes, sir.

"Judge Worley: Whether a patentee misuses?

"Mr. Rosenman: Yes, sir.

"Judge Worley: And whether he has purged himself of that misuse is likewise a question of fact, is it not?

"Mr. Rosenman: Yes, sir."

** The continuance of wrongful conduct will not be presumed. *Davis* v. *S. E. C.*, 109 F. 2d 6, 9 (7th Cir. 1940), cert. denied 309 U. S. 687; *Schlitz Brewing Co.* v. *Compton*, 142 Ill. 511, 519 (1892). This is but a corollary of the presumption that business is conducted lawfully—that one acts honestly and keeps within the requirements of the law. *Bank of U. S.* v. *Dandridge*, 12 Wheat. (25 U. S.), 64, 69 (1827); *International Shoe Co.* v. *Commission*, 280 U. S. 291, 302 (1929); *Missouri Pacific R. R. Co.* v. *Prude*, 265 U. S. 99, 101 (1924); *Cincinnati & Texas Pac. Ry.* v. *Rankin*, 241 U. S. 319, 327 (1915); *Pasadena Research Lab.* v. *U. S.*, 169 F. 2d 375, 382 (9th Cir. 1948), cert. denied 335 U. S. 853.

*** Not only are parties presumed to know the law as pronounced by this Court (*W. F. & John Barnes Co.* v. *International Harvester Co.*, 145 F. 2d 915, 918 (7th Cir. 1945), cert. denied 324 U. S. 850; *In re Stratton*, 53 F. Supp. 131, 133 (S. D. Calif. 1943), aff'd. 148 F. 2d 986, aff'd. 327 U. S. 269), but they are presumed to follow and comply with it (*New York Central & Hudson R. R.*

The district court also found patent misuse subsequent to May 15, 1951, but it is clear that this misuse was limited strictly to the attempts by USG to recover compensation for the use of its patents (F. 13, R. 1157). This determination has no factual foundation and is fallacious as a matter of law (*supra*, pp. 36-47).

(c) The district court's error on the purge issue apparently results in part from its misconstruction of USG's contentions regarding certain evidence of purge already in the record. The manner in which the issue of purge came to be considered by the district court in this connection warrants a word of explanation. It was at all times the position of USG that the burden was upon petitioners to establish by evidence actual misuse by USG of its patents in the 1948-1951 period, and that should evidence to that effect be received, USG had a right to introduce countervailing evidence to show that whatever misuse had been established had been purged. Understanding that factual issues, including that of purge, would be subsequently proved after preliminary legal questions had been decided (R. 676-8, 691-2, 1252-3), USG nevertheless contended that there were certain facts already of record which had a purging effect sufficient not only to preclude a conclusion against it, as a matter of law, but even to resolve the purge issue in its favor as to the 1948-1951 period.

In an effort to demonstrate to the court its position with respect to purge, assuming *arguendo* that patent misuse had been established prior to February 1948, USG called the district court's attention, for illustrative purposes only and not as the only or exclusive facts showing

---

Co. v. *Beaham*, 242 U. S. 148, 151 (1916); *McFarland* v. *Campbell*, 213 F. 2d 855, 858 (5th Cir. 1954); *Athens Roller Mills* v. *Com'r. of Int. Rev.*, 136 F. 2d 125, 128 (6th Cir. 1943); *Fidelity & Deposit Co.* v. *Grand Natl. Bank of St. Louis*, 69 F. 2d 177, 183 (8th Cir. 1934); *American Surety Co.* v. *Citizens' Natl. Bank*, 294 F. 609, 616 (8th Cir. 1923)).

purge, to certain facts already in the record before the district court which USG contended might well establish purge of any such misuse (R. 812, 1171-2, 1250-3). These facts of record were:

(1) USG had not enforced or implemented the price-fixing provisions of its licenses at any time subsequent to July 8, 1941 (F. 19, which the Government did not assign as error, 1947 R. 4143, 4181; R. 789; F. 22A, R. 1150; see *United States* v. *United States Gypsum Company, et al.*, 67 F. Supp. 397, 412);

(2) On March 8, 1948, when petitioners ceased paying royalties, the licenses had been rescinded by act of the parties, and no action had been taken thereafter by USG or any licensee to enforce or require performance of any of the provisions thereof (R. 611, 661, 778-9, 795, 973, F. 6, 7, R. 1145-6);

(3) In early 1949 USG had offered to its licensees new licenses avoiding all provisions found objectionable in this Court's first decision of March 8, 1948 (R. 396-8, 447, 481, 562, 567-70);

(4) USG had been under court order enjoining any misuse of its patents, including any enforcement or performance of the price limitation provisions of the old license agreements, during most of the 1948-1951 period. Not only was there a legal presumption that it had obeyed such court orders, but there was no suggestion of their violation by USG or any other defendant. Specifically, the district court had entered such an injunction on November 7, 1949 (R. 475);

(5) As a further instance supporting the preceding point (4), this Court, in noting probable jurisdiction of the Government appeal, on May 29, 1950, enjoined USG and the other corporate defendants from enforcing in any manner whatsoever the price limitation provisions of the license agreements and from entering into or performing any agreement in restraint of trade by license or other concerted action, which order was in effect until the entry of the 1951 decree (339 U. S. 960; R. 514).

The lower court's treatment of these facts as the only evidence of purge brings about a wholly erroneous and inequitable result.

(1) The district court found that USG did not fix prices under the licenses after July 8, 1941, but rejected the purging effect of that fact because (a) the reserved right to do so remained, and (b) the price fixing provision was inseparable from other provisions found violative of the Act (F. 22A, R. 1150). The latter reason is meaningless since it was the price provision which violated the Act. The first reason is contrary to the authorities (*infra*, pp. 56-60). Certainly nonuse demonstrates purge; it is particularly pertinent in showing dissipation of any illegal effects.

(2) The district court found that the licensees abandoned the license agreements following the first Supreme Court decision on March 8, 1948 (F. 7, 8; R. 1145-6). But the court summarily disposed of the claim that USG "acquiesced" in that abandonment. This was a factual issue not only under the 1953 petitions and answers thereto (R. 789), but also in the Iowa suits (*i. e.*, Count III, R. 618, 650), and it was clearly error to adjudicate that issue without the taking of any evidence.

(3) The offer by USG of new licenses in 1949, untainted with any improper provisions which could support a charge of patent misuse, was erroneously rejected as an act of purge (F. 22C, R. 1151). This was in part because the court thought the proffered licenses differed from the form approved by this Court, whereas, in fact, the offered licenses were the same as those the district court approved in 1949 and differed from those approved in the 1951 decree only in respect of requirements in the latter (a) that licensees' reports need not show a breakdown as to thickness and size of board, and (b) that verification of licensees' reports must be by an independent auditor or person acceptable to both parties (rather than a USG audi-

tor or, at licensees' option, a mutually satisfactory CPA), who shall report only the royalty due (compare R. 447 and 481 with R. 562, 567-70).

Can it be that such incidental changes made in the licenses can give rise to a plain legal implication that these changes were necessary in order to block effectually continued misuse by USG of its patents? Definitely not, and this Court's decision (340 U. S. 76, 94-95) demonstrates that the provisions were not of such a character. Price-fixing and all other objectionable features had been removed. The proffered licenses were innocuous, and legal in every respect. The failure of the corporate appellees to accept them should not operate to deprive USG of the purging effect of its good faith offer.*

(4) The district court missed the point of the fourth fact of purge, *i. e.*, the 1949 adjudication of the old licenses as illegal, null and void, and injunction against their performance or enforcement (R. 475, 814, 1151-2, 1172, 1253-4). USG relied upon the effect of the decree itself as a purge, and not the incidental fact that it had at first decided not to appeal from it.** This adjudication was rejected as a

* Another reason for rejecting this claim was that the proffered licenses were not intended to become effective until the entry of the decree, since it was not until then that the old licenses were to be cancelled and terminated (R. 1151). The proposed decretal provision for cancellation was merely designed to dispose of, once and for all, any vestige of those agreements which had been replaced with new licenses. It cannot factually be given the significance attached to it by the court. Moreover, the court concluded that the old licenses were "nullified completely" by the 1949 decree (C. 7, R. 1156), and the corporate appellees, in their motions to affirm, assert that they were voided by this Court's opinion of March 4, 1948 (Nat. 3; Cert. 4).

** The court's reference to the incidental fact of USG's decision not to appeal overlooks the facts that *first*, it was claimed in the Certain-teed brief that the 1949 decree did not constitute a purge because USG appealed from it, and *second*, it was only to meet such a contention that the argument, erroneously referred to by the lower court as the fourth fact, was made in presenting the fourth fact of purge (R. 1172, 1253-4).

fact showing purge, although in another connection, the court found that the same adjudication "nullified completely" the license agreements (C. 7, R. 1156).

(5) This failure to grasp the purging effect of an injunctive order is also reflected in the lower court's rejection of this Court's injunction of May 29, 1950, as evidencing purge. Moreover, it appears that this rejection was influenced by the court's erroneous continued misuse ruling based on the pending USG compensation suits (F. 22E, R. 1152).

The district court's rejection of the purge facts of record is further erroneous in ignoring their cumulative effect. It is shocking that a court of equity would permit co-conspirators free use of the USG patents, despite ten years non-use of price limitation provisions of the old licenses, the abandonment of those agreements by the parties, repeated offers by USG of new, legally unobjectionable licenses, and the injunctions (respected and adhered to by USG and its licensees) of the district court and of this Court against misuse of the patents during much of the pertinent period.

(d) Each of these five facts, under the authorities, constitutes a purging of any alleged patent misuse by USG; the cumulation of such facts establishes purge beyond doubt. But assuming, *arguendo,* that they do not establish purge, as the district court concludes, they are certainly sufficient, when considered with the other facts put in issue by the 1953 petitions and answers thereto, to prevent a summary judgment of non-purge, which is what the lower court's ruling amounts to.

(1) A patentee's affirmative, unilateral action to cease or terminate the alleged patent misuse is a recognized means of purge. In *Eastern Venetian Blind Co.* v. *Acme Steel Co.,* 188 F. 2d 247 (4th Cir. 1951), cert. denied 342 U. S. 824,

where at the trial plaintiff cancelled its licenses and offered new unobjectionable licenses, the court said (p. 254):

> "By these actions whatever defect was found in the early licenses has now been removed and the case falls within the rule which is equally well established that even if a patentee has in the past misused his patents, he is entitled to equitable relief after the misuse has been fully abandoned."

To the same effect is *Baker-Cammack Hosiery Mills* v. *Davis Co.*, 181 F. 2d 550 (4th Cir. 1950), cert. denied 340 U. S. 824, where the objectionable features of the license were eliminated in plaintiff's offer to license the industry sent out after the pending suit began, but before trial, which the court held was sufficient to purge any misuse because of improper terms in the original licenses. The court said (p. 571):

> "* * * We think that the case should be decided on the basis of the last offer, for even if the first offer was improper, the plaintiff was clearly within its rights in withdrawing and correcting it."

In *Metals Disintegrating Co., Inc.* v. *Reynolds Metals* Co., 228 F. 2d 885 (3d Cir. 1956), the patentee misused its patents by entering into illegal price fixing agreements with the defendant and another licensee in 1939. In 1946 the patentee no longer sought to enforce the price fixing arrangement, and in 1948 the contract was declared null and void by a court. In holding that damages for infringement might be properly computed from 1947, the court said (p. 889):

> "The court below found as a fact that misuse as regards defendant ceased about November, 1946, and all misuse terminated by April 2, 1947. Defendant argues that in law its contract with plaintiff was a misuse which continued to the date it was declared illegal by the District Court although the agreement was never enforced after November, 1946. The short

answer to defendant's contention is that in legal contemplation its contract with plaintiff, being contrary to public policy, was never valid. Licznerski v. United States, 3 Cir. 1950, 180 F. 2d 862, cert. denied 339 U. S. 987. The significant question is factual. When did all performance under this agreement cease? Since plaintiff did not seek to enforce the bargain after November, 1946, it was not guilty of any misuse with respect to defendant thereafter. This conclusion is reinforced by the fact that plaintiff unsuccessfully sought defendant's agreement to formal elimination of the illegal provisions. Thus, but for defendant's intransigence, there would not even be colorable basis for its present contention.

"We accordingly agree that purge as regards defendant was complete in November 1946 and all illegal use terminated by April 2, 1947. Therefore, damages may properly be computed from the latter date."

In *Westinghouse Electric Corp.* v. *Bulldog Electric Products Co.*, 179 F. 2d 139 (4th Cir. 1950), a letter by Westinghouse waiving the price maintenance provision of its outstanding circuit breaker licenses, is held a sufficient purge to permit a judgment for infringement to stand, the court saying (p. 145):

"We need not decide * * * whether the price maintenance provisions of the multibreaker licenses are illegal, as we think it clear that any illegality that may have existed has been purged as a result of the action of Westinghouse in promptly surrendering all rights under these provisions following the decision in the *Line Material* case and abandoning all efforts at price control."

The *Westinghouse* case was cited with approval by this Court in *Automatic Radio Co.* v. *Hazeltine*, 339 U. S. 827 (1950), where the Court, finding that a licensor had waived

by letter a restrictive notice provision in its licenses, said (p. 835):

> "* * * it is clear that any issue with respect to this provision of the agreement is moot."*

(2) It is equally well established that evidence of the mutual rescission or disregard of offending agreements establishes purge. In *Park-In-Theatres* v. *Paramount-Richards Theatres,* 90 F. Supp. 730, 735 (D. Del. 1950), the court stated that evidence of rescission of the offending contract by conduct of the parties would constitute abandonment or cessation of the improper use of a patent—at least the possibility of such evidence precluded a summary judgment for defendants. In *Campbell* v. *Mueller,* 159 F. 2d 803, 806-7 (6th Cir. 1947), evidence of the abrogation and cancellation of the license, which contained a minimum price clause, after start of the infringement suit, was held to constitute a purge. In *Sylvania Industrial Corp.* v. *Visking Corp.,* 132 F. 2d 947 (4th Cir. 1943), app. dism. 319 U. S. 777, plaintiff withdrew the offending licenses and changed its method of doing business after the trial court announced that plaintiff's licensing practice of tying in unpatented materials was objectionable. This step was held to constitute a purge and to restore plaintiff's right to enforce its patents. Similarly, in *Air Products* v. *Boston Metals Co.,* 98 F. Supp. 719 (D. Md. 1951), rev'd on other

* Additional cases recognizing purge by the patentee's unilateral action are *White Cap Co.* v. *Owens-Illinois Glass Co.,* 203 F. 2d 694 (6th Cir. 1953), cert. denied 346 U. S. 876, where the cancellation of objectionable features of a machinery lease *pendente lite* was held to purge patent misuse; *Hoague-Sprague Corp.* v. *Bird & Son, Inc.,* 91 F. Supp. 159 (D. Mass. 1950), where an affirmative change from an objectionable royalty provision which tied in unpatented materials to a straight monthly rental was held sufficient to constitute a purge; *Kool Vent Metal A. Corp.* v. *American Beauty V. A. A. Co.,* 119 F. Supp. 802 (N. D. Ohio 1954), rev'd. on other grounds 226 F. 2d 207 (6th Cir. 1955); and *Universal Sewer Pipe Corp.* v. *General Construction Co.,* 42 F. Supp. 132 (N. D. Ohio 1941).

grounds 193 F. 2d 535 (4th Cir. 1952), cert. denied 343 U. S. 953, where plaintiff had leased its patented equipment on condition that lessee would use with it only oxygen purchased from plaintiff, and where after commencement of suit and just prior to trial plaintiff modified such leases with the concurrence of lessees, it was held that such a step constituted a complete purge. See also, *Morrill, et al.* v. *Automatic Industries, Inc.*, 93 F. Supp. 697 (W. D. Mo. 1950).

(3) Another recognized means of purge is the entry of an antitrust decree enjoining the continuation of the alleged misuse. Thus, in *Standard Oil Co.* v. *Markham*, 163 F. 2d 917 (2nd Cir. 1947), cert. denied 333 U. S. 873, the court said in answer to defendant's defense of unclean hands because of patent misuse (p. 927):

> "• • • since the consent decree the property in suit has not been used in violation of the antitrust laws • • • These plaintiffs have paid once, in the consent decree, for their wrongdoing and should not be made to pay again for those same acts."

Similarly, in *Hartford-Empire* certain rights of defendant were dated from the "entry of the receivership decree" and "entry of the decree by the District Court", both of which preceded by several years the final decree in the case. See 323 U. S. 386, 411 and 324 U. S. 570, 572.

(e) The district court's ruling discloses a misunderstanding as to how issues of misuse and purge normally arise. It seems to consider that there is some duty on a patentee to come before the court which tried the antitrust case, as the court of paramount jurisdiction, and affirmatively establish its compliance with the requirements of the decree and its eligibility for an order that it is duly purged and can henceforth recover for use of its patents.

That, of course, is not the way these issues arise. A patentee, learning of infringement or use of its patent

without compensation, brings suit. The defendant, seeking to avoid liability, injects the defense of patent misuse.* Being an affirmative defense, the burden is on the defendant to prove the misuse, whereupon the burden shifts to plaintiff to show that there was no misuse during the period involved or that any illegal effects of a prior misuse has been dissipated;** in other words, that there has been a purge of any prior misuse.

Applied to the *instant* case, the defense of misuse has been injected by both National and Certain-teed in the USG suits in Iowa, based upon the adjudication of the Sherman Act violation in this case as proof of such misuse (R. 715-18, 731-4). This should not be sufficient to shift the burden of proof, *first,* because the decree speaks factually not later than 1941, the last year as to which there was any evidence introduced, and *secondly,* because of the narrow adjudication of law violation in this case.

USG would contend that the adjudication here fails to prove misuse in the pertinent 1948-1951 period. If sustained, the defendant must prove misuse in that period. If the court rules that there was misuse prior to 1941 sufficient to put USG on proof of purge before or during the 1948-1951 period, then USG must prove that any misuse had ceased.***

---

* Although the misuse doctrine is a relatively new one, it has become a defense commonly used in suits to recover for use of patents.

** It is not necessary to prove that the consequences of misuse have been dissipated where it is not shown that the misuse had illegal consequences. *White Cap. Co.* v. *Owens-Illinois Glass Co.*, 203 F. 2d 694, 698 (6th Cir., 1953), cert. denied 346 U. S. 876.

*** The facts as to the industry since 1941, the effects of government price control in the war period, this Court's decision of May 8, 1948, the district court's granting of the Government's motion for summary judgment on June 29, 1948 and its 1949 decree, and this Court's injunction of May 29, 1950, will be only a part of the evidence to establish purge (R. 1250-53). See also matters set up in the USG answers to the National and Certain-teed 1953 petitions (R. 788-89).

The doctrine of patent misuse and purge is of relatively recent development and had its genesis in the decisions of this Court. It is not believed that this Court intended that the doctrine should serve to deprive a patentee of the right to show that patents were not being misused, or that there had been a purge of any possible prior misuse, during a period seven to ten years after the alleged misuse. The district court's ruling on the misuse and purge issues calls for a reversal of the December 9, 1954 decree, and highlights the need for a clarification by this Court of the procedure for determining such issues, as well as the extent of the doctrine.

IV.

THE DISTRICT COURT ERRED IN HOLDING THAT THE FINAL DECREE OF MAY 15, 1951, BARRED, OR SHOULD BE AMENDED TO BAR, USG FROM SUING TO RECOVER COMPENSATION FOR USE OF ITS PATENTS BY THE CORPORATE APPELLEES DURING THE 1948-1951 PERIOD.

A brief review of the 1951 decree and its factual background shows that it did not, and was not intended to, bar USG from suing to recover reasonable compensation for prior use of its patents and that the 1954 amendment ordering the dismissal of USG's suits with prejudice is wholly unsupportable.

1. The May 15, 1951 Decree.

(a) Certain well established rules applicable to equity decrees are pertinent. An injunction entered in an antitrust suit, as in other equity proceedings, must be precise and specific and not phrased in generalities. The acts restrained must be described with particularity. *Schine Chain Theatres* v. *United States,* 334 U. S. 110, 126 (1948); *Hartford-Empire Co.* v. *United States,* 323 U. S. 386, 410 (1945);

Swift & Co. v. *United States,* 196 U. S. 375, 396, 401 (1905). As was succinctly stated in the *Swift* case (p. 401), "The defendants ought to be informed as accurately as the case permits what they are forbidden to do." The requirement for explicitness in an injunctive decree is codified in the Federal Rules of Civil Procedure, Rule 65(d), which provides that every restraining order "shall be specific in terms" and "shall describe in reasonable detail * * * the act or acts sought to be restrained."

It is also well established that the effect of a decree, as an adjudication conclusive upon the parties, is determined by a close examination of the issues actually presented and decided. Even broad injunctive language, when subsequently construed, will be read strictly in the light of the actual controversy which existed before the court entering the decree; it will not be read broadly, so as to prohibit more than the court actually intended to prohibit at the time the decree was entered. *Vicksburg* v. *Henson,* 231 U. S. 259, 268-273 (1913); *Oklahoma* v. *Texas,* 272 U. S. 21, 43 (1926); *United Shoe Machinery Co.* v. *United States,* 258 U. S. 451, 460 (1922).

Moreover, a court may not, under the guise of construction, add new substantive provisions which were omitted or withheld in the first instance. *Hughes* v. *United States,* 342 U. S. 353, 357 (1952); *United States* v. *International Harvester Co.,* 274 U. S. 693, 702-3 (1927). In *Hughes,* this Court, in reversing the trial court's modification of the decree, said (p. 357):

> "It may be true as the Government now contends that Hughes' large block of ownership in both types of companies endangers the independence of each. Evidence might show that a sale by Hughes is indispensable if competition is to be preserved. However, in section V the parties and the District Court provided their own detailed plan to neutralize the evils from

such ownership. Whatever justification there may be now or hereafter for new terms that require a sale of Hughes' stock, we think there is no fair support for reading that requirement into the language of section V. The District Court's order cannot be supported by reliance on such an interpretation. Consequently the court's command to sell the stock effected a substantial modification of the original decree."

An application of these rules is found in *Terminal Railroad Association of St. Louis* v. *United States,* 266 U. S. 17, 27, 29 (1924). There this Court, in reversing, pointed out that the proceedings were instituted by the west side lines, not to vindicate the authority of the court, but to enforce rights claimed by them under the original decree, and that the controversy was between them and the east side lines as to whether the former or the latter shall bear transfer charges on west bound through freight. In rejecting the petitioners' contentions, the Court said (pp. 29-30):

"In contempt proceedings for its enforcement, a decree will not be expanded by implication or intendment beyond the meaning of its terms when read in the light of the issues and the purpose for which the suit was brought; and the facts found must constitute a plain violation of the decree so read . . .

"The original decree does not require the east side lines to pay the charges for transferring west bound through freight. No provision so directs, and there is nothing in the circumstances to indicate that the court intended to prescribe the amount of such transfer charges or to fix liability therefor. *United States* v. *St. Louis Terminal,* 236 U. S. 194, 204. The suit was brought by the United States to prevent restraint of trade and monopoly in violation of the Sherman Anti-Trust Act. It did not relate to the transfer charges or division of joint rates. All the proprietary companies were defendants. The pleadings presented no issue between the west side lines and the east side lines; and no controversy between them was determined by the decree."

(b) Applied to the final decree of May 15, 1951, these principles lead to the inescapable conclusion that there is no injunction, either intended or prescribed, against USG's suing to recover compensation for the use of its patents in the 1948-1951 period.

Appellees cannot point to any injunctive provision in the 1951 decree, which in any way prohibits USG from suing to recover for actual use of its patents, and the compulsory licensing provisions included in the decree assure USG a reasonable compensation for such use (Art. VI, R. 567-570, 573).

The Government's position is that Article IV is sufficient to operate as a bar to USG's counts based on the license agreements which had been declared illegal, null and void, but it does not claim that Article IV operates as any bar to the other counts in USG's suits (R. 739-740). The district court concedes that Article IV does not, either expressly or by fair implication, cover the counts in USG's pending suits other than Counts I and II, and that if the other counts are to be enjoined it must be by modification of the decree (Conc. 7, R. 1156). It is clear, then, that the 1951 decree does not furnish any basis for compelling USG to dismiss, with prejudice, its *quantum meruit* and infringement counts (*i. e.*, Counts III, IV and V in the National and Certain-teed suits).

Neither in its opinion nor findings does the district court illuminate its ruling that Counts I and II "clearly violate the express provisions of Article IV."* Certainly there

* USG believed the inclusion of these counts a proper precaution in stating all possible theories of recovery (*supra*, pp. 14, 42), and did not consider Article IV to be an injunction prohibiting its doing so. The ruling in Conclusion 7 (R. 1156) that these counts "clearly violate" Article IV would certainly seem to be untenable. The corporate appellees' briefs below recognize that Article IV needs implementation to enjoin suits on the licenses (Nat'l. R. 775-6; Cert. R. 774-5).

is no precise and specific language enjoining the assertion of such a claim. Article IV adjudged the license agreements illegal, null and void, as is customarily done in antitrust decrees where violation of the Sherman Act is found. In some cases an additional restrictive provision against enforcement of the agreement declared illegal is incorporated in the decree;* in others, as in the instant case, no such further provision is included.** Under either method, the decree may be pleaded as a defense in any subsequent suit on the agreement, but it is difficult to see how such a suit could possibly violate the decree unless it also contained injunctive provisions against seeking to enforce the agreement. This Court found nothing inconsistent in *Hartford-Empire* in permitting the royalties col-

* See *U. S.* v. *International Business Machines Corp.* (S. D. N. Y. 1956), 1956 Trade Cases 68,245 (para. XII); *U. S.* v. *Michigan Tool Co.* (E. D. Mich. S. D. 1956), 1956 Trade Cases 68,290 (para. VI (c)); *U. S.* v. *Logan Co.* (W. D. Pa. 1956), 1956 Trade Cases 68,375 (para. V(F)); *U. S.* v. *Magcobar, Inc.* (S. D. Calif. 1955), 1955 Trade Cases 68,023 (para. V(B)); *U. S.* v. *American Mono Rail Co.* (N. D. Ohio 1955), 1955 Trade Cases 68,041 (para. IV(B)); *U. S.* v. *Kelsey-Hayes Wheel Co.* (E. D. Mich. 1955), 1955 Trade Cases 68,093 (para. VIII); *U. S.* v. *Wallace & Tiernan Co., Inc.* (D. R. I. 1954), 1954 Trade Cases 67,828 (para. XIV); *U. S.* v. *General Electric Co.* (D. N. J. 1954), 1954 Trade Cases 67,714 (para. V(c)(3)); *U. S.* v. *Mager & Gougelman, Inc.* (N. D. Ill. 1952), 1952-53 Trade Cases 67,233 (para. VIII(B)); *U. S.* v. *Bearing Distributors Co.* (W. D. Mo. 1953), 1952-53 Trade Cases 67,595 (para. VI); *U. S.* v. *Minn. Mining & Mfg. Co., et al.* (D. Mass. 1950), 1950-51 Trade Cases 62,724 (para. IV).

** See *U. S.* v. *Ernest Lowenstein, Inc.* (S. D. N. Y. 1955), 1955 Trade Cases 68,106 (para. IV); *U. S.* v. *National City Lines, Inc.* (N. D. Ill. 1954), 1954 Trade Cases 67,917 (para. IV); *U. S.* v. *Investors Diversified Services, Inc.* (D. Minn. 1954), 1954 Trade Cases 67,799 (para. IV); *U. S.* v. *Minn. Mining & Mfg. Co., et al.* (D. Mass. 1950), 1950-51 Trade Cases 62,687 (see para. 4 of decree as to Count II entered 9/13/50); *U. S.* v. *Phillips Screw Co.* (N. D. Ill. 1949), 1948-49 Trade Cases 62,394 (para. IV); *U. S.* v. *The Sperry Corp.* (S. D. N. Y. 1942), 1941-43 Trade Cases 52,844 (para. III).

lected under licenses to be held for the benefit of the patentee, notwithstanding the Sherman Act violation there found.

Moreover, there were no issues presented to the lower court by the pleadings in this case or otherwise, prior to the 1953 petitions and answers thereto, as to the right of USG to sue for use of its patents *pendente lite*. The Government in one amendment to the complaint had included a prayer that the defendant companies be enjoined from suing to recover for the unauthorized use of their respective patents. But the Government did not seek such relief at any time during the hearings which preceded the formulation of the 1949 decree or the 1951 decree, nor in its 1950 appeal to this Court for further relief. The prayer was obviously abandoned. At no time did the corporate appellees present such an issue prior to the filing of the 1953 petitions.

Article IV was first suggested to the district court by certain corporate appellees at the June 14, 1949 hearing on the Government's proposed findings, conclusions and decree, and defendants' objections thereto.* However, there was no suggestion on the part of any of the corporate appellees, or of the Government which adopted the suggestion in its reply argument, that the purpose of such a declaration of illegality was to excuse liability for the use of USG's patents prior to the effective date of the decree. On the contrary, the defendant licensees specifically urged other reasons for such a declaration of illegality (Nat'l. R. 350-1, 354; Cert. R. 361-2, 365; Cel. R. 373; New.

* The decree first proposed by the Government did not contain a provision comparable to Article IV (R. 157-166); the Government first adopted the suggestion in its reply argument at the June 14, 1949 hearing (R. 406-7). The corporate appellees filed memos concurring in USG's proposed provision declaring only the price fixing provisions illegal (USG's proposed decree, Art. IV, R. 192; Cert. R. 194-5; Natl. R. 204). Article IV in the form adopted was first presented by Mr. Dallstream, attorney for defendant Celotex (R. 372-3).

R. 385, 387-9, 391; Ebs. R. 377). And the spokesman for one of the defendant licensees, who appeared to be presenting the plan of the decree for all defendant licensees, in submitting Article IV in the exact language in which it was ultimately adopted, gave express assurance that the purpose of Article IV was not to avoid liability for use of the USG patents, saying:

> "I just want to make it clear to all that we are not attempting by this declaration of illegality of them to find some way of avoiding the license fees which during this none of us have paid" (R. 373, 993).*

2. The December 9, 1954 Decree.

The appealed from decree of December 9, 1954, amending the 1951 decree, is unsupportable either as a proper exercise of the inherent powers of a court of equity to amend its decrees, or as a proper exercise of the reservation of jurisdiction contained in Article X of the 1951 decree.

---

* The record shows that the defendant licensees had a plan of presentation of their position (R. 344-345), and that Mr. Dallstream, the Celotex attorney, because of his familiarity with the *Masonite* case, was to present the defendant licensees' views as to the suggested form of decree (R. 364-365). The district court, in its July 6, 1954 opinion, expressly found that Mr. Dallstream's assurances bound Certainteed as well as Celotex, but that National and the others made no commitments (R. 994). Nevertheless, the other corporate appellees were present and participating in the argument, and not one of them rejected the assurance to the court that in presenting the provisions of Article IV they were not attempting to find some way of avoiding license fees which, during this period, none of them had paid (R. 373, 345, 361, 377, 384, 423). Moreover, the district court in its findings completely ignores the significant facts that all the defendant licensees assigned reasons, other than royalty avoidance, for inclusion of Article IV, and magnifies out of all proper perspective USG's speculation that their purpose in urging the declaration of illegality of the licenses, rather than the price fixing provisions only, was to try to avoid accounting under the licenses (R. 1146-8). Findings 11, 12, 13 and 14 are inaccurate, misleading and unfair in presenting the proceedings leading to the 1949 decree and should be set aside (see USG's Objections and Suggestions with respect thereto, R. 1071-75).

(a) The district court, and the corporate appellees in their motions to affirm, recognize that any modification of the 1951 decree must be within the basic purposes of the decree as originally entered (R. 1001; Mo. to affirm Nat'l. 13, 14; Cert. 14), but this principle is violated by the 1954 amendment establishing new "rights" in the corporate appellees in disregard of the position of the Government and of the basic purposes of the original decree.

This being originally a proceeding brought by the Government for alleged Sherman Act violation, and the "heart of the final decree", according to the district court, being the adjudication in Article III that the defendant companies had acted in concert in restraint and monopolization of trade in the gypsum board industry in violation of Sections 1 and 2 of the Sherman Act (R. 1004), it is obvious that the basic purposes of the final decree are to give the Government adequate relief to prevent agreements or understandings in the future resulting in Sherman Act violations through patent license agreements or other concerted acts. The provisions of Articles IV, V and VI of the decree are designed to accomplish those purposes, and no suggestion has been made that they have in any way failed to do so.

As stated, none of the injunctive provisions of the 1951 decree, approved as to form by plaintiff and defendants below, in any way prohibits USG from recovering for actual use of its patents. In fact, the compulsory licensing provisions assure USG reasonable compensation for such use of its patents. The district court concedes that Article IV, the only provision relied on as in any way affecting USG's suits, does not expressly or by fair implication cover any of the counts in the pending suit other than Counts I and II (Conclusion 7, R. 1156).

The district court nevertheless by its December 9, 1954 decree approves a modification of the 1951 decree to in-

clude an extraneous matter which it recognizes was not dealt with at the time the decree was entered.* This is done, not for further protection of the public against Sherman Act violation, but rather to assure the corporate appellees the "right" to avoid payment for their actual use of USG's patents, notwithstanding the fact that the 1951 decree adopts their proposals that they be assured the continued use of such patents, but upon payment of a reasonable royalty therefor (R. 567-70, 573).

The 1954 amendment to the final decree is not necessary or appropriate to carry out this Court's direction that the decree should "cure the ill effects of the illegal conduct" and that "the conspirators should, so far as practicable, be denied future benefits from their forbidden conduct", as has been asserted (Mo. to Affirm—Nat'l. 4, 8, 14; Cert. 4, 14). Such admonition would apply with equal force to the co-defendant licensees as well as to the licensor. Moreover, the actual use of the patents *pendente lite,* and the payment of a reasonable compensation for such use, have no connection either with curing the ill effects of past illegal conduct or denying future benefit from forbidden conduct, as this Court recognized in *Hartford-Empire.*

The Government, the sole spokesman for the public interest, and the only party plaintiff in this case, has significantly stated that it takes no position as to whether USG's alternative claims for recovery on a *quantum meruit* basis or for infringement (*i.e.* Counts III, IV, V and VI) are barred by the final decree, or as to whether this Court should or should not enter an order enjoining prosecution of such alternative claims. If the Government believed

* If, as the lower court found, Counts I and II clearly violate the 1951 decree, there was no need to amend the decree to compel dismissal of those counts. The amendment was only necessary to compel dismissal of the *quantum meruit* and infringement counts, which the lower court concedes were not covered, expressly or by fair implication, by the 1951 decree.

that a modification of the decree to enjoin prosecution of the *quantum meruit* and infringement counts were necessary or appropriate to effectuate the basic purposes of the decree, or to protect the public interest, there is no doubt but that it would have been before the district court vigorously urging that the decree be so modified*.

Nor does the 1954 modification of the final decree merely make explicit that which necessarily must have been implied if Article IV of the decree is to have purpose or effect. Such a claim is unwarranted and conflicts with the trial court's conclusion that Article IV does not, either expressly or by fair implication, cover the counts in USG's pending suits other than Counts I and II.

The action of the district court in enjoining the pending suits therefore does not effectuate the purposes of Article IV, but improperly injects into the decree a new subject matter of a purely private nature.

(b) Not only does the 1954 modification go beyond the basic purposes of the decree, but it also violates the well established principle that the rendition of a judgment does not conclude parties to the action, who are not adversaries under the pleadings, as to their rights *inter se* upon matters which they did not litigate or have an opportunity to litigate between themselves. In other words, a judgment in favor of a plaintiff against two or more de-

---

* Judge Cole, in his dissenting opinion, said (R. 1018): "Just why this court, under the circumstances, should feel called upon, in view of the Government's position, to restrain prosecution of the pending suits in the several district courts and take upon itself the adjudication of the controversy between the defendants when that controversy involves issues, such as the right to recover under *quantum meruit* or infringement, as alleged, when the Government as the sole protector of the public interest in litigation of this character does not join the petitioners in such request for this court to do so, but by inference at least suggests that it is beyond the scope of the decree handed down in these proceedings, I do not appreciate."

fendants is not conclusive of the rights and liabilities of the defendants *inter se*, except as to matters expressly put in issue between them, by cross-complaint or other adversary pleading, and determined by the judgment in the first action.*

There were no issues joined as between the co-defendants, nor did the court purport to make any adjudication of rights as between them in entering either the 1949 or the 1951 decrees, with this single exception: having declared the old license agreements illegal, null and void, the court assured the defendant licensees the right to continued use of USG's patent, but upon payment of a reasonable royalty therefor.**

(c) Moreover, there is no justification whatsoever for the extent to which the district court has gone in modifying the prior decree to establish new "rights" in companies which have been adjudged guilty of conspiracy. The district court found that one result of the patent misuse was to create an economic situation where the conspirators, other than USG, had organized their plants and business operations upon the continued use of USG's patents, and when this Court found a violation of the Act in its first opinion, these licensees were placed in an "uncertain and perilous position" since their operations were based on licenses declared in violation of the Act, and they elected to disregard the licenses and to continue use of the patents (R. 1145-46). In this situation the district court found a basis for jurisdiction "to secure or pre-

* Restatement of the Law of Judgments, Sec. 82; 1 Freeman on Judgments, Sec. 422; 30 Am. Juris. 966-7; 101 A. L. R. 104; 142 A. L. R. 727; 152 A. L. R. 1066; *George A. Fuller Co.* v. *Otis Elevator Co.*, 245 U. S. 489 (1918); *Kimmel* v. *Yankee Lines*, 224 F. 2d 644 (3rd Cir. 1955); *Fouke* v. *Jordy*, 289 F. 220 (5th Cir. 1923); *Owensboro* v. *Westinghouse*, 165 F. 385 (6th Cir. 1908).

** 1951 decree, Art. VI App. B, *infra*, p. B8, R. 567-70, 573; 1949 decree, Art. VI and VIII (R. 476, 482).

serve the fruits and advantages" of the decree entered herein (R. 986).

Just what "fruits and advantages" co-conspirator licensee defendants are entitled to is indeed difficult to comprehend. If co-conspirators National and Certain-teed conditioned their business operations upon the continued use of USG patents, that was part and parcel of their participation in the conspiracy. A court cannot equitably say at a later date that for their transgressions they should benefit by the free use of those patents when the decree itself required payment for their continued use. The corporate appellees were all co-conspirators. How does it lie in the mouth of any one of them to say that, by the mutual misconduct of all of them, they can refuse to pay for the use of another's patents? How can a court of equity hold that it should amend the decree, upon petition of guilty parties, to enjoin a patentee against the simple act of maintaining a suit in another court to recover money for their use of the patents? The cases establishing the misuse doctrine can have no such application or lead to any such result.

The district court in this instance even goes so far as to hold that the co-conspirators' illegal activity created "rights" enabling them to grab the reins in a Government antitrust suit and obtain an amendment of the decree in order to protect and enforce their spurious private "rights."* The error is further accentuated in that this conclusion is reached without the taking of any evidence covering the period involved or for many years prior thereto.

---

* The district court opinion relies heavily on *Missouri-Kansas Pipeline Co.* v. *United States*, 312 U. S. 502, to support the conclusion that the petitioners were given "rights" in the final decree which supported their petitions for relief (R. 982-984). That case is wholly dissimilar. There the petitioner was not a co-conspirator, but a victim of the conspiracy, and the decree had specifically given it the right to intervene.

(d) Nor can the district court's action be justified by the reservation contained in Article X of the decree. That reservation is not a "broad" one, as the district court suggests (*supra*, p. 28). In fact, the reservation for making such orders as may be "necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith" is a relatively narrow reservation as a comparison with similar provisions in other antitrust decrees will show.* Certainly it does not have the effect of broadening the inherent power of the court to make amendments to carry out the basic purposes of the decree.

* This falls far short of a reserved jurisdiction "to take further action, if experience thereafter should make such necessary or advisable, fully to effectuate the purposes of destroying the monopoly and conspiracy and denying the fruits thereof" to which corporate appellees refer in their motions to affirm (Natl. 6-7; Cert. 7).

CONCLUSION.

For the foregoing reasons, the judgment of the district court should be reversed, with directions to enter a judgment granting appropriate relief to appellant.

Respectfully submitted,

BRUCE BROMLEY,
CRANSTON SPRAY,
ROBERT C. KECK,
HUGH LYNCH, JR.,
Attorneys for Appellant, United States Gypsum Company.

CRAVATH, SWAINE & MOORE,
15 Broad Street,
New York 5, New York,

MACLEISH, SPRAY, PRICE & UNDERWOOD,
134 South LaSalle Street,
Chicago 3, Illinois,

MACLEAY, LYNCH & MACDONALD,
1625 K. Street, N. W.,
Washington 6, D. C.,
Of Counsel.

APPENDIX A.

IN THE UNITED STATES DISTRICT COURT.
For the District of Columbia.

United States of America, *Plaintiff*,
vs.
United States Gypsum Company, et al.,
Defendants.
No. 8017 Civil.

In re Petitions of National Gypsum Company, et al., *Petitioners*, *vs.* United States Gypsum Company, *Respondent*.

DECREE.

Filed, Dec. 9, 1954, Harry M. Hull, Clerk.

Petitions having been filed in this Court by defendants, National Gypsum Company, Certain-teed Products Corporation, Newark Plaster Company, and Ebsary Gypsum Company, Inc., on March 25, April 22, May 13, and June 3, 1953, respectively, for orders, modifications or directions for the enforcement, construction or carrying out of the Final Decree of May 15, 1951 and

Plaintiff United States of America, having filed on June 30, 1953 its petition for order or directions for the construction, carrying out or enforcement of the Final Decree of May 15, 1951, and

Defendant United States Gypsum Company, having filed on September 8, 1953 separate answers to each of the above petitions, and

The Court, having read and considered said petitions

and answers, and having heard the oral arguments of Counsel for all of the above parties on January 12 and 13, 1954, and having read and considered the briefs filed by them, and having rendered its majority and dissenting opinions on July 6, 1954,

IT IS THEREFORE ORDERED, ADJUDGED AND DECREED:

1. This Court has jurisdiction of the subject-matter of said petitions and of the parties hereto.

2. The Final Decree of this Court of May 15, 1951 is hereby modified by adding to Article V thereof a paragraph reading:

> Defendant United States Gypsum Company is hereby ordered and directed to discontinue and to dismiss, with prejudice to United States Gypsum Company, its pending actions as follows: against National Gypsum Company, in the United States District Court for the Northern District of Iowa; against Certain-Teed Products Corporation, in the same District Court; against Newark Plaster Company, in the United States District Court for the District of New Jersey; and against Ebsary Gypsum Company, Inc., in the United States District Court for the Southern District of New York.

3. Costs arising out of these proceedings instituted by Petitioners shall be assessed against United States Gypsum Company.

Dated this 9 day of December, 1954.

/s/ KIMBROUGH STONE,
Judge,

/s/ EUGENE WORLEY,
Judge.

For the reasons stated in the dissenting opinion filed herein on July 6, 1954, I dissent from the foregoing Decree and think these actions by Petitioners should be dismissed for lack of jurisdiction.

/s/ WILLIAM P. COLE, JR.,
Judge.

APPENDIX B.

FINAL DECREE, MAY 15, 1951.

IN THE UNITED STATES DISTRICT COURT.
For the District of Columbia.

UNITED STATES OF AMERICA, *Plaintiff,* *vs.* UNITED STATES GYPSUM COMPANY; NATIONAL GYPSUM COMPANY; CERTAIN-TEED PRODUCTS CORPORATION; THE CELOTEX CORPORATION; EBSARY GYPSUM COMPANY, INC.; NEWARK PLASTER COMPANY; SAMUEL M. GLOYD, Doing Business Under the Name of TEXAS CEMENT PLASTER COMPANY; SEWELL L. AVERY; OLIVER M. KNODE; MELVIN H. BAKER; FREDERICK G. EBSARY; and FREDERICK TOMKINS, *Defendants.*	Civil Action No. 8017.

PRELIMINARY STATEMENT.

This cause came on for trial before this Court on November 15, 1943. At the conclusion of plaintiff's presentation of the case, defendants moved, pursuant to Rule 41(b) of the Federal Rules of Civil Procedure, for judgment dismissing the complaint on its merits. The motion of defendants was granted August 6, 1946. The judgment so rendered by this Court was reversed by the Supreme Court of the United States, and the case was remanded to this Court for further proceedings in conformity with the opinion of the Supreme Court (333 U. S. 364).

Following the remand, the plaintiff, pursuant to Rule 56 of the Federal Rules of Civil Procedure, moved for summary judgment in its favor upon the pleadings and all of the proceedings which theretofore had been had in the

case, or, in the alternative, for such further proceedings as this Court might direct, and defendants, by direction of the Court, filed proffers of proof.

Argument by counsel for the respective parties upon the motion of plaintiff was heard by the Court, and after due consideration of such argument and of defendants' proffers of proof, Garrett, *J.* and Jackson, *J.*, constituting a majority of the Court, announced a ruling to the effect that plaintiff's motion for summary judgment would be granted, and Stephens, *J.*, who presided during the trial, announced his dissent from such ruling.

Thereafter counsel for plaintiff and counsel for certain of the defendants submitted forms of final decrees for the consideration of the Court and also suggested findings of fact, the latter to be considered in the event the Court should deem it necessary to make any findings of fact additional to those originally found by it and to those stated in the opinion of the Supreme Court.

In due course, the Court heard arguments respecting the proposed decrees and the suggested findings of fact, and full consideration was given thereto and to all prior proceedings—all being considered in the light of the decision of the Supreme Court which, as understood by the majority of this Court, held that the defendants acted in concert to restrain trade and commerce in the gypsum board industry and monopolized said trade and commerce among the several states in that section hereinafter referred to as the eastern territory of the United States, which section embraces all the states of the United States westward from the eastern coast thereof to the Rocky Mountains and including New Mexico, Colorado, Wyoming, and the eastern half of Montana.

Thereafter this Court, on November 7, 1949, entered its decree sustaining plaintiff's motion for summary judgment and granting relief which it deemed appropriate to

its adjudication. Plaintiff thereupon appealed to the Supreme Court seeking to have the scope of the relief enlarged, and certain defendants appealed to the Supreme Court for a reversal of the judgment, which latter appeal was dismissed by the Supreme Court on May 29, 1950. On November 27, 1950, the Supreme Court rendered an opinion on the plaintiff's appeal, affirming this Court's adjudication of Sherman Act violation, holding there was concerted action through the fixed-price licenses and accepting as true the underlying facts in the defendants' proof by proffer. Nevertheless, the Supreme Court reversed the decree heretofore entered herein and remanded the cause to this Court with instructions to modify its decree and for further proceedings in conformity with its opinion.

Upon remand, this Court, after ordering counsel for the plaintiff and for the defense to submit forms of decree in conformity with the Supreme Court opinion and after considering such forms has modified its decree of November 7, 1949, in accordance with the Supreme Court's opinion of November 27, 1950.

DECREE.

IT IS THEREFORE ORDERED, ADJUDGED AND DECREED:

ARTICLE I.

This Court has jurisdiction of the subject matter hereof and of the parties hereto. The complaint states a cause of action against defendants under the Act of Congress of July 2, 1890, entitled "An Act to Protect Trade and Commerce Against Unlawful Restraints and Monopolies," commonly known as the Sherman Antitrust Act, and acts amendatory thereof and supplemental thereto.

ARTICLE II.

As used in this decree:

1. "Defendant companies" shall mean all of the corporate defendants and Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company.

2. "Gypsum board" shall mean plaster board, lath, wallboard, special surface board, sheathing, liner board (including any such product which is perforated or metalized) made from gypsum.

3. "Gypsum products" shall mean gypsum board as defined in the preceding paragraph, and plaster, block, tile and Keene's cement made from gypsum.

4. "Patents" shall mean United States Letters Patent and applications for United States Letters Patent relating to gypsum board, its processes, methods of manufacture or use, now owned or controlled by defendant United States Gypsum Company and issued to, applied for or acquired by defendant United States Gypsum Company within a period of five (5) years from the date of this decree, including Letters Patent issued upon any of said applications, and continuations in whole or in part, renewals, reissues, divisions and extensions of any such Letters Patent or applications for Letters Patent.

5. "Patent Licenses" shall mean the patent license agreements which were in effect between defendant United States Gypsum Company and each of the other defendant companies at the time the complaint herein was filed and described in said complaint as follows:

Agreement dated October 15, 1929, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee;

Agreement dated October 17, 1929, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee;

Agreement dated October 18, 1929, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee;

Agreement dated November 5, 1929, between United States Gypsum Company, as licensor, and Universal Gypsum and Lime Company (National Gypsum Company, as Assignee), as licensee;

Agreement dated November 25, 1929, between United States Gypsum Company, as licensor, and American Gypsum Company (The Celotex Corporation, as Assignee), as licensee;

Agreement dated April 23, 1930, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Co., as Assignee), licensee;

Agreement dated February 10, 1937, between United States Gypsum Company, as licensor, and Texas Cement Plaster Company, as licensee;

Agreement dated October 5, 1934, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee (Metallized board);

Agreement dated October 12, 1934, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Company, as Assignee), as licensee (Metallized board);

Agreement dated November 2, 1934, between United States Gypsum Company, as licensor, and Certainteed Products Corporation, as licensee (Metallized board);

Agreement dated December 4, 1934, between United States Gypsum Company, as licensor, and American Gypsum Company (The Celotex Corporation, as Assignee), as licensee (Metallized board);

Agreement dated August 14, 1935, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Metallized board);

Agreement dated June 8, 1938, between United States Gypsum Company, as licensor, and Certainteed Products Corporation, as licensee (Perforated lath);

Agreement dated September 16, 1938 between

United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee (Perforated lath);

Agreement dated February 2, 1937, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Perforated lath);

Agreement dated September 16, 1938, between United States Gypsum Company, as licensor, and Ebsary Gypsum Company, as licensee (Perforated lath);

Agreement dated June 23, 1937, between United States Gypsum Company, as licensor, and Kelley Plasterboard Company (Newark Plaster Company, as Assignee), as licensee (Perforated lath);

Agreement dated January 3, 1939, between United States Gypsum Company, as licensor, and Newark Plaster Company, as licensee (Perforated lath);

and any supplement or amendment to any of said patent license agreements.

ARTICLE III.

The defendant companies have acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board and have monopolized trade and commerce in the gypsum board industry in violation of sections 1 and 2 of the Sherman Antitrust Act.

ARTICLE IV.

Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void.

ARTICLE V.

The defendant companies, and their respective officers, directors, agents, employees, representatives, subsidiaries, and any person acting or claiming to act under, through or for them, or any of them, be and each of them hereby is enjoined from entering into or performing any agreement or understanding among the defendant companies or other manufacturers of gypsum products to fix, maintain or stabilize, by patent license agreements or other acts or course of action, the prices, or the terms or conditions of sale, of gypsum products sold or offered for sale to other persons, in or affecting interstate commerce; and from engaging in, pursuant to such an agreement or understanding, any of the following acts or practices:

(1) agreeing upon any basis for the selection or classification of purchasers of gypsum products;

(2) refraining from selling gypsum products to any purchaser or any class of purchasers;

(3) agreeing upon any plan of selling or quoting gypsum products at prices calculated or determined pursuant to a delivered price plan which results in identical prices or price quotations at given points of sales or quotation by defendants using such plan;

(4) policing, investigating, checking or inquiring into the prices, quantities, terms or conditions of any offer to sell or sale of gypsum products.

ARTICLE VI.

1. Defendant United States Gypsum Company is hereby ordered and directed to grant to each applicant making application therefor, but only in so far as it has the right to do so, a non-exclusive license to make, use and vend under any, some or all patents as hereinbefore defined, at a reasonable, non-discriminatory royalty or royalties therefor. Defendant United States Gypsum Company is hereby

enjoined from making any sale or other disposition of any of said patents which deprives it of the power or authority to grant such licenses unless it requires as a condition of such sale, transfer or assignment that the purchaser, transferee or assignee shall observe the requirements of Articles VI and VIII of this decree, and unless the purchaser, transferee or assignee shall file with this Court, prior to or as a part of the consummation of said transaction, an undertaking to be bound by said articles of this decree.

2. Defendant United States Gypsum Company is hereby enjoined from including any restriction or condition whatsoever in any license or sublicense granted by it pursuant to the provisions of this article, except that (a) the license may be indivisible and non-transferable; (b) a reasonable, non-discriminatory royalty may be charged, which royalty may not be imposed upon or measured by patent-free products, processes or uses; (c) provision may be made requiring licensee to keep full and accurate records of the gypsum board manufactured and sold by it under any such patent and requiring licensee to make appropriate reports to licensor as to the royalty due, but such reports shall not disclose the selling price of the board or disclose a breakdown of the size or thickness of the board sold; (d) reasonable provision may be made for periodic inspection of the books and records of the licensee by an independent auditor, or by any person acceptable to the licensor and licensee, who shall report to the licensor only the amount of royalty due and payable; (e) reasonable provision may be made for marking the gypsum board manufactured or sold under the licensed patent; and (f) reasonable provision may be made for cancellation of the license upon failure of the licensee to pay the royalty or to permit the inspection of its books and records or for other material breach of the terms of the license agreement by licensee, or in the event licensee shall be adjudged a bank-

rupt. The license agreement shall be in writing signed by the parties thereto and shall to the extent that licensor has the right to do so, grant to the licensee the full right to make, use and vend the inventions and improvements described in the claims of each patent licensed, in the manufacture, sale or use of gypsum board, for the full term of the patent and any renewal, reissue, division, or extension thereof, and may contain the provisions hereinabove set forth and such other lawful provisions as may be agreed upon between the parties thereto and which are not in conflict with any of the provisions of this decree.

3. Upon receipt of written request for such a license defendant United States Gypsum Company shall advise the applicant in writing of the royalty which it deems reasonable for the patent or patents to which the request pertains. If the parties are unable to agree upon a reasonable royalty within sixty (60) days from the date such request for a license was received by United States Gypsum Company, the applicant therefor shall within ten (10) days thereafter apply to this Court for a determination of a reasonable loyalty or be deemed to have abandoned his said request for such license. The applicant shall promptly give written notice of the filing of such application to the United States Gypsum Company and to the Attorney General of the United States, who shall have the right to be heard thereon. The reasonable royalty rate or rates so determined by the court shall apply to such patent or patents in the license of the applicant from the date of his last written request for such license, and to such patent or patents in all other licenses then or thereafter issued under this decree from the date of such determination. Pending the completion of any such proceeding, applicant shall have the right to make, use and vend under the patent or patents to which his application pertains upon the terms and conditions as set forth in paragraph 4 of this Article, provided

he files his application for the determination of a reasonable royalty as aforesaid.

4. Where an application has been made to this Court for the determination of a reasonable royalty under paragraph 3 of this Article, the applicant or the United States Gypsum Company may apply to the court to fix an interim royalty rate pending final determination of what constitutes a reasonable royalty. If the court fixes such interim royalty rate, United States Gypsum Company shall then issue and the applicant shall accept an interim license agreement effective as of the date of the applicant's last written request for such license hereunder and in the form this day filed herein and approved by the court, providing for the periodic payment of royalties at such interim rate from the effective date of such interim license. If applicant fails to accept such interim license or fails to pay the interim royalty in accordance therewith, any such action or omission shall be grounds for the dismissal of the application for the determination of a reasonable royalty and the withdrawal or cancellation of the interim license. Where an interim license has been issued pursuant to this paragraph, reasonable royalty rates for any patent or patents as finally determined by the court shall apply to such patent or patents in the licenses of the applicant and all other applicants then before the court and shall be retroactive with respect to each such applicant to the date of his said written request for such license.

Article VII.

Nothing contained in this decree shall be deemed to have any effect upon the operations or activities of said defendants which are authorized or permitted by the Act of Congress of April 10, 1918, commonly called the Webb-Pomerene Act, or the Act of Congress of August 17, 1937,

commonly called the Miller-Tydings Act, or by any present or future act of Congress or amendment thereto; provided, however, nothing contained in this Article shall in any manner affect the provisions of Article VI of this decree.

ARTICLE VIII.

For the purpose of securing compliance with this decree, and for no other purpose, duly authorized representatives of the Department of Justice, upon written request of the Attorney General or any Assistant Attorney General, and on reasonable notice in writing addressed to any defendant company at its principal office, shall be permitted, subject to any legally recognized privilege: (a) access during the office hours of said defendant to all books, ledgers, accounts, correspondence, memoranda, and other records and documents in its possession or under its control relating to any of the matters contained in this judgment; (b) subject to the reasonable convenience of said defendant and without restraint or interference from it, to interview officers or employees of said defendant regarding any of the matters contained in this judgment; provided, however, that either said defendant or any such officer or employee may have counsel present at any such interview. No information obtained by the means permitted in this Article shall be divulged by any representative of the Department of Justice to any person other than a duly authorized representative of the Department of Justice, except in the course of legal proceedings in which the United States of America is a party, for the purpose of securing compliance with this decree or as otherwise required by law.

ARTICLE IX.

Judgment is entered against the defendant companies for 50% of the costs of $2,824.00 to be taxed in this proceeding, and the costs so to be taxed are hereby prorated against the several defendant companies as follows:

United States Gypsum Company	$776.60
National Gypsum Company	324.76
Certain-teed Products Corporation	155.32
The Celotex Corporation	42.36
Ebsary Gypsum Company, Inc.	42.36
Newark Plaster Company	56.48
Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company	14.12

ARTICLE X.

Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith.

Let the decree be entered.

HAROLD M. STEPHENS,
FINIS J. GARRETT,
JOSEPH R. JACKSON.

May 15, 1951.

(Interim license form not reproduced.)

APPENDIX C.

Federal Rules of Civil Procedure.

Rule 8.

General Rules of Pleading.

a. Claims for Relief. A pleading which sets forth a claim for relief, whether an original claim, counterclaim, cross-claim, or third-party claim, shall contain (1) a short and plain statement of the grounds upon which the court's jurisdiction depends, unless the court already has jurisdiction and the claim needs no new grounds of jurisdiction to support it, (2) a short and plain statement of the claim showing that the pleader is entitled to relief, and (3) a demand for judgment for the relief to which he deems himself entitled. Relief in the alternative or of several different types may be demanded.

b. Defenses; Form of Denials. * * *

c. Affirmative Defenses. * * *

d. Effect of Failure to Deny. * * *

e. Pleading to be Concise and Direct; Consistency.

(1) Each averment of a pleading shall be simple, concise and direct. No technical forms of pleading or motions are required.

(2) A party may set forth two or more statements of a claim or defense alternatively or hypothetically, either in one count or defense or in separate counts or defenses. When two or more statements are made in the alternative and one of them if made independently would be sufficient, the pleading is not made insufficient by the insufficiency of one or more of the alternative statements. A party may also state as many separate claims or defenses as he has regardless of consistency and whether based on legal or on

equitable grounds or on both. All statements shall be made subject to the obligations set forth in Rule 11.

f. Construction of Pleadings. All pleadings shall be so construed as to do substantial justice.

35 U. S. C., Section 271.

Sec. 271. Infringement of patent.

(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

(d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement. (July 19, 1952, c. 950, Sec. 1, 66 Stat. 811.)

15 U. S. C., Sections 1, 2, 3 and 4. (Sherman Act).

Section 1. Trusts, etc., in restraint of trade illegal; exception of resale price agreements; penalty.

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal: *Provided,* * * * Every person who shall make any contract or engage in any combination or conspiracy declared by sections 1-7 of this title to be illegal shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court. (July 2, 1890, ch. 647, Sec. 1, 26 Stat. 209; as amended July 7, 1955, ch. 281, 69 Stat. 282.)

Section 2. Monopolizing trade a misdemeanor; penalty.

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court. (July 2, 1890, ch. 647, Sec. 2, 26 Stat. 209; as amended July 7, 1955, c. 281, 69 Stat. 282).

Section 3. Trusts in Territories or District of Columbia illegal; combination a misdemeanor.

Every contract, combination in form of trust or otherwise, or conspiracy, in restraint of trade or commerce in

any Territory of the United States or of the District of Columbia, or in restraint of trade or commerce between any such Territory and another, or between any such Territory or Territories and any State or States or the District of Columbia, or with foreign nations, or between the District of Columbia and any State or States or foreign nations, is declared illegal. Every person who shall make any such contract or engage in any such combination or conspiracy, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court. (July 2, 1890, ch. 647, Sec. 3, 26 Stat. 209; as amended July 7, 1955, c. 281, 69 Stat. 282.)

Section 4. Jurisdiction of courts; duty of district attorneys; procedure.

The several district courts of the United States are invested with jurisdiction to prevent and restrain violations of sections 1-7 of this title; and it shall be the duty of the several district attorneys of the United States, in their respective districts, under the direction of the Attorney General, to institute proceedings in equity to prevent and restrain such violations. Such proceedings may be by way of petition setting forth the case and praying that such violation shall be enjoined or otherwise prohibited. When the parties complained of shall have been duly notified of such petition the court shall proceed, as soon as may be, to the hearing and determination of the case; and pending such petition and before final decree, the Court may at any time make such temporary restraining order or prohibition as shall be deemed just in the premises. (July 2, 1890, c. 647, § 4, 26 Stat. 209; Mar. 3, 1911, c. 231, § 291, 36 Stat. 1167.)

INDEX

	Page
Statement	1
The Government's interest in the questions presented by the appeal	6
Discussion:	
I. The district court had jurisdiction to require USG to dismiss its pending suits against its former co-defendants	9
II. The scope and force of the patent misuse doctrine, in relation to the requisite showing of purge	13
Conclusion	17

CITATIONS

Cases:	
Automatic Radio Co. v. *Hazeltine, Inc.*, 339 U. S. 827	14, 15
B. & B. Chemical Co. v. *Ellis*, 314 U. S. 495	13, 14, 15
Chrysler Corp. v. *United States*, 316 U. S. 556	10, 11
Hartford-Empire Co. v. *United States*, 323 U. S. 386, 324 U. S. 570	5
Hughes v. *United States*, 342 U. S. 353	11
Katzinger Co. v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394	7
Mercoid Corp. v. *Midcontinent Co.*, 320 U. S. 661	13
Morton Salt Co. v. *Suppiger Co.*, 314 U. S. 488	13
Steelman v. *All Continent Co.*, 301 U. S. 278	10
United States v. *Swift & Co.*, 286 U. S. 106	10
Miscellaneous:	
Pomeroy, *Equity Jurisprudence* (5th ed.), Sec. 231 *et seq*	10

406336—56——1

In the Supreme Court of the United States

OCTOBER TERM, 1956

No. 11

UNITED STATES GYPSUM COMPANY, APPELLANT

v.

NATIONAL GYPSUM COMPANY, ET AL.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

MEMORANDUM FOR THE UNITED STATES

STATEMENT

The case is here on appeal from an order of the district court which modified the final judgment entered in a civil proceeding brought by the United States charging the present appellant and the corporate appellees with violating the Sherman Act. There have been three prior appeals to this Court.

The first was from the judgment of dismissal entered following the close of the Government's evidence, upon the ground that no right to relief had been shown. In March 1948 this Court reversed, holding that, on such evidence, "violation of the Sherman Act

is clear." 333 U. S. 364, 401. After remand and defendants' proffer of proof, the trial court granted the Government's motion for summary judgment. Judgment was entered on November 7, 1949, and both the United States and the present appellant, United States Gypsum Company (USG), appealed. USG's appeal was dismissed (339 U. S. 959), but on the Government's appeal this Court upheld the Government's contention that the judgment's injunctive and compulsory-licensing provisions should be made more stringent (340 U. S. 76, 90–95). Following the second reversal, final judgment against the defendants was entered on May 15, 1951.

This Court's second *Gypsum* opinion established that the defendants, constituting substantially all the members of the industry, violated the Sherman Act when they concertedly entered into uniform patent licensing agreements providing for fixing prices. 340 U. S. 76, 86–88. By the agreements, USG licensed the other defendants under its gypsum board patents and required each licensee to sell gypsum board at not less than the price at which USG sold. In July 1941, about a year after the filing of the Government's complaint, USG notified its licensees that it was suspending price fixing "until we decide again to exercise our right to do so," and the district court has found that USG has not subsequently fixed prices pursuant to the licenses (R. 1150–1151).

Shortly after this Court's first *Gypsum* opinion in March 1948, the four corporate appellees stopped paying royalties to USG. The final judgment entered on

May 15, 1951, declared that the license agreements between USG and the other defendants were "illegal, null and void" (Art. IV), and required USG to license its gypsum-board patents at a reasonable royalty to any applicant therefor (Art. VI). Appellees National Gypsum Company (National) and Certain-teed Products Corporation (Certain-teed) applied for and obtained such licenses, retroactive to the date of the judgment, but appellees Ebsary Gypsum Company (Ebsary) and Newark Plaster Company (Newark), as to whom the case is now moot,[1] did not seek or obtain new licenses.

Early in 1953, USG instituted separate suits against Certain-teed and National in the United States District Court for the Northern District of Iowa, seeking a money judgment by reason of the defendant's use of USG's patents during the March 1948-May 1951 period. Each complaint was in five alternative counts. Count I was for the royalties payable under the defendant's prior license agreements; count II for royalties payable under this agreement as allegedly amended; count III for use of USG's patents under circumstances implying a promise to pay; count IV for the reasonable value of such use (*quantum meruit*); and count V for infringement. Like suits were brought in other federal district courts against Ebsary and Newark. A few months later, each of these defendants filed in the court below a petition asking that prosecution of the foregoing suits be enjoined. National, Newark, and Ebsary each prayed that the court

[1] See first note on page 3 of USG's brief.

modify its final antitrust judgment so as to require USG to dismiss its pending suits (R. 612–613, 668–672). Certain-teed prayed for similar injunctive re-relief without requesting modification of the antitrust judgment (R. 665).

The petition filed by the Government in the court below alleged that the final antitrust judgment barred prosecution of any claim based in whole or in part on any of the license agreements declared to be illegal, null and void, and prayed that prosecution of any such claim be enjoined. In that petition the Government did not express any view as to whether the antitrust judgment barred the alternative claims set forth in USG's suits against its former co-defendants, or as to whether the court should enjoin prosecution of these alternative claims. (R. 739–741.)

The opinion of the district court,[2] which was rendered after USG had answered the petitions and after briefs and argument, held that prosecution of all counts of the USG suits should be enjoined (R. 975, 1015). The court, in so holding, ruled as follows:

It had jurisdiction to grant the relief requested by the petitioners (R. 979–87). Prosecution of Counts I and II, which set forth claims based on the voided license agreements, violates the antitrust judgment

[2] The court, as reconstituted, was composed of retired Circuit Judge Kimbrough Stone, and Judges Cole and Worley of the United States Court of Customs and Patent Appeals. During the prior antitrust proceeding the district court had consisted of Circuit Judge Harold M. Stephens and Judges Garrett and Jackson of the United States Court of Customs and Patent Appeals. (R. 669, 817–8)

and should be enjoined (R. 987–98). The judgment did not allow or forbid USG's other claims (R. 1001), but it should be modified to enjoin these claims. The reasons for modification were: The *indebitatus assumpsit* claim (count III) is "but a left-handed, indirect method for recovering" the royalties provided in defendants' illegal license agreements (R. 1008–9). The infringement claim (count V) should be barred because USG's co-conspirators had "conditioned their business operations" upon continued use of USG's patents, and because of the "teaching" of *Hartford-Empire Co.* v. *United States,* 323 U. S. 386, 324 U. S. 570 (R. 1006–8). The *quantum meruit* claim (count IV) should be barred because USG had not established that it had purged itself of its patent misuse and prosecution of the claim would "weaken the effectiveness" of the antitrust judgment (R. 1009–15).

A dissenting opinion filed by Judge Cole expressed the view that in a Government antitrust proceeding "the United States can be the sole spokesman for the public interest" and that in such litigation the main action should not be "encumbered with extraneous issues of a private nature" (R. 1016–7), and that therefore any relief granted should be confined to that which the Government had requested (R. 1018–9).

The court subsequently filed findings of fact (R. 1144–55), conclusions of law (R. 1155–58), and a decree which modified the judgment of May 15, 1951, by adding a paragraph which directed USG to dismiss with prejudice its pending actions against its former co-defendants (R. 1159–60).

THE GOVERNMENT'S INTEREST IN THE QUESTIONS PRESENTED BY THE APPEAL

The Jurisdiction of the District Court. USG's brief urges (pp. 26–36) that the district court was without jurisdiction to entertain and act upon the petitions presented to it. The question thus raised involves the jurisdiction of the court below to protect the integrity of its antitrust judgment, and to modify that judgment when the requested modification raised issues closely related to the proceedings and adjudications eventuating in entry of final judgment. The jurisdictional question is therefore one which is of concern to the Government. We shall set forth our reasons for believing that this Court should sustain the district court's ruling as to its jurisdiction. See *infra*, pp. 9–12.

USG's Claim to Royalties Payable Under the Voided License Agreements. The validity of this claim is of concern to the Government. Article IV of the antitrust judgment adjudged the various patent license agreements to which the defendants were parties "unlawful under the anti-trust laws of the United States and illegal, null and void" (R. 567). Plainly no cause of action can be grounded upon the agreements thus voided. Maintenance of an action based on these agreements is an attempt to defeat the judgment. Article IV was incorporated in the judgment in the face of USG's contention that the judgment should declare illegal only the minimum price provisions of the license agreements (R. 994–5), a circumstance which highlights the purpose to nullify

these agreements in their entirety. Moreover, the nullification merely makes explicit the consequences of defendants' violation of the Sherman Act. A patent licensee's "obligation to pay royalties" and its agreement to sell at prices fixed by the licensor "constitute[d] an integrated consideration for the license grant. Consequently, when one part of the consideration is unenforceable because in violation of law, its integrated companion must go with it." *Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394, 401.

We shall not elaborate further on the proposition that the antitrust judgment bars recovery of the royalties payable under the voided license agreements because we understand that on this appeal USG is not contending that the judgment permits such recovery. USG admits (Br. 66) that the judgment "may be pleaded as a defense in any subsequent suit" on the agreements. It merely urges (Br. 65) that, since the judgment did not enjoin enforcement of the agreements, suit thereon does not "violate" the judgment, further explaining (*ibid.*) that it included counts I and II in the suits against its former co-defendants in the belief that it was "a proper precaution" to state "all possible theories of recovery."

USG's Infringement and Quantum Meruit Claims. The antitrust judgment enjoined each defendant from doing certain things by agreement among themselves or other manufacturers of gypsum products (Art. V, R. 567), and it required USG to grant

licenses under its gypsum board patents as there specified. (Art. VI, R. 567–70).[3] Regardless of whether USG is or is not entitled to recover by reason of the use made of its patents by National and Certain-teed during the pre-judgment 1948–1951 period, the prohibitions or commands of the judgment would remain in effect.

USG's appeal primarily attacks the district court's application of the so-called patent misuse doctrine, both in holding that certain admitted facts showed misuse by USG continuing to the time of the court's decision, and in holding that misuse could be determined as a matter of law without taking evidence (USG Br. 36–62). The Government has a broad interest in the patent misuse doctrine because of the effect it may have in deterring violation of the antitrust laws. We are not concerned, as such, with the question whether the doctrine bars a particular patentee, on particular facts, from enforcing his patents. We shall therefore not support or oppose the conclusions which the district court reached on the specific facts of this case, but shall discuss what we understand to be the doctrine's rationale and scope, in the context of the general factual circumstances which the district court deemed significant or determinative. See *infra*, pp. 13–17.

---

[3] The other provisions of the judgment are not relevant to the issues now before this Court, except that the terms on which the court retained jurisdiction of the cause (Art. X, R. 571–2) may be relevant to the question whether the district court acted within its jurisdiction in entering the order which has been appealed.

DISCUSSION

I. The district court had jurisdiction to require USG to dismiss its pending suits against its former co-defendants

By Article X of the judgment the court below retained jurisdiction of the cause for the purpose of enabling any party—

> to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith.

We submit that the Government and the other petitioners below presented a matter squarely within the above retention of jurisdiction when they asked the court to enjoin prosecution of any claim for royalties payable under the licenses which the judgment declared to be null and void. The "null and void" adjudication would be meaningless and futile if it permitted suit on the voided agreements. Irrespective of whether such suit would support a contempt citation, absent an express injunction against suit, implementation of the judgment by barring suit, when occasion for such implementation arose, is an order appropriate or necessary for the "construction or carrying out" of the judgment.

The district court therefore was plainly empowered to grant part of the relief sought by the petitioners below, and USG never sought to sever consideration of the prayers for such relief from the prayers for relief the granting of which might be considered an

enlargement of the prohibitions of the final judgment.[4] Moreover, by Article X of the judgment, the court reserved jurisdiction to entertain and act upon the application of any party for "modifications" and "vacations" of the judgment provisions for the purpose of "carrying out" the judgment. When the corporate appellees asked that USG be enjoined from maintaining infringement or *quantum meruit* claims based on the use of patents which had been the fulcrum of defendants' price-fixing conspiracy and thus had been "misused", this presented an issue of whether the requested modification "served to effectuate * * * the basic purpose of the original consent decree." (*Chrysler Corp.* v. *United States,* 316 U. S. 556, 562), and hence came within the Article X reservation of jurisdiction. We therefore submit that the court's jurisdiction is clear.

Irrespective of the express reservation of jurisdiction in Article X, the antitrust court had power to modify, by reason of the inherent power of a court of equity to modify its judgment when new facts or circumstances indicate the need for modification. *United States* v. *Swift & Co.*, 286 U. S. 106, was an appeal from an order of a district court modifying

[4] While we concern ourselves in the ensuing discussion with the cases dealing explicitly with modifications of antitrust judgments, it also seems pertinent to note the traditionally broad powers and discretion of a court of equity, when it has the parties and the cause before it, to consider related and ancillary questions which are outstanding and to grant, when the circumstances are deemed to warrant it, a full measure of relief calculated to avoid the splintering of litigation. See, generally, Pomeroy, *Equity Jurisprudence* (5th ed.), Section 231 *et seq.* Cf. *Steelman* v. *All Continent Co.*, 301 U. S. 278, 289–290.

its final judgment in an antitrust proceeding. This Court, after noting that by the terms of the judgment power to modify was reserved, said (p. 114):

> If the reservation had been omitted, power there still would be by force of principles inherent in the jurisdiction of the chancery. A continuing decree of injunction directed to events to come is subject always to adaptation as events may shape the need.

Power to modify, as distinct from a proper exercise of this power, was expressly recognized in *Hughes* v. *United States,* 342 U. S. 353, 357, and in Mr. Justice Frankfurter's dissenting opinion in the *Chrysler* case, *supra,* 316 U. S. at 567.

The Government also disagrees with USG's contention (Br. 30–32) that the district court lacked jurisdiction to make any change in the judgment not sought by the Government. The cases which USG cites involved judgment changes sought by intervenors or would-be intervenors in antitrust proceedings brought by the Government. The courts properly have refused to permit third parties to interject into the main cause of action controversies affecting their interests. But those who, as here, were parties to the cause and subject to the judgment which was entered are entitled to seek modification, and the relief which the court has power and jurisdiction to grant is not confined to relief which the Government also requests. The views of the Government should, of course, be given consideration, whether it opposes, supports, or remains neutral respecting the proposed change in the judgment.

Where a Government antitrust proceeding involving patent misuse has resulted in final adjudication of violation of the antitrust laws, the question whether the patentee has purged itself of its misuse is likely to be intimately related to the scope of the adjudication of violation and to the various steps in the antitrust proceeding leading to entry of final judgment. Certainly in both of these respects the question of purge in the instant case is intimately related to the original proceeding. USG and the corporate appellees appear to be wide apart in their interpretations of the scope and basis of the antitrust violation which was adjudicated. In addition, these opposing parties differently view the effect and significance, with respect to the purge issue, of various acts or steps taken in the proceedings leading up to the final antitrust judgment. In these or like circumstances, the antitrust court plainly is the court most competent to determine the purge issue. It is also the only court competent to render a decision binding on all parties to the antitrust litigation. If that court is without jurisdiction, the purge issue, which turns at least in part on the interpretation of the antitrust adjudication and judgment, is open to diverse and conflicting rulings in the various federal district courts in which the issue may arise.

We submit that the provisions of the final antitrust judgment, the equity court's inherent power to revise a judgment governing future conduct, and impressive policy considerations all support the jurisdiction of the district court to make the order which has been appealed.

II. The scope and force of the patent misuse doctrine, in relation to the requisite showing of purge

USG unquestionably misused its patents, at least during the operative period of the conspiracy among those who were defendants in the Government's antitrust proceeding. Such misuse, until purged, bars the patentee from enforcing the exclusive rights conferred by the patent grant.

This "patent misuse" doctrine is applicable irrespective of any prior adjudication that the patentee had violated the antitrust laws. In the cases in which this Court enunciated and applied the doctrine, there had been no such adjudication. *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488; *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495; *Mercoid Corp.* v. *Midcontinent Co.*, 320 U. S. 661, 669. The doctrine's rationale is that "courts, and especially courts of equity, may appropriately withhold their aid where the plaintiff is using the right asserted contrary to the public interest". *Morton Salt* case at 492. The Court in that case further stated that where a patent is used as a means of restraining competition with the patentee's sale of an unpatented product, successful prosecution of an infringement suit tends to thwart "the public policy underlying the grant of the patent". *Id.*, at 493. In further elaboration, this Court said (*ibid.*):

> Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement, and should do so at least until it is made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated.

In the decisions cited, patent misuse was contemporaneous with suit upon the patent. There was therefore no occasion to determine the circumstances which will establish abandonment of misuse and dissipation of its consequences sufficient to leave the patentee free again to enforce his patent, except that *B. B. Chemical Co.* held that abandonment on appellate review after adverse decision below is insufficient. In that case the petitioner patentee had suggested that it was entitled to relief because it was contemporaneously willing to grant patent licenses free from competition-restraining provisions, but this Court said (314 U. S. at 498):

> It will be appropriate to consider petitioner's right to relief when it is able to show that it has fully abandoned its present method of restraining competition in the sale of unpatented articles and that the consequences of that practice have been fully dissipated.

Automatic Radio Co. v. *Hazeltine, Inc.*, 339 U. S. 827, was a suit by a patentee for royalties payable under a patent license. The licensee asserted patent misuse as a defense, and one aspect of the alleged misuse was a license provision which required the licensee to attach to products manufactured thereunder a notice stating that the product was licensed only for certain specified uses. This Court, in affirming judgment for the patentee, held (p. 835) that the fact that the patentee had not enforced the notice requirement and had authorized substitution of a non-restrictive notice rendered moot the legality of the notice provision of the license agreement.

The showing requisite to establishing purge—*i. e.*, full abandonment of the restrictive practice, and full dissipation of its effects—involves a number of factors, such as the character of the patent misuse, its duration, and the finality of the patentee's abandonment thereof. These and other pertinent factors, and their respective importance, necessarily vary from case to case. Thus, where, as here, misuse was clear and tied to a conspiracy of a broad and continuing nature, the required showing may be different than where the misuse consisted of including trade-restraining provisions in a patent license. We believe, therefore, that only limited guidance is furnished by the decisions cited by USG (Br. 56–60) in which patentees were held, in other circumstances, to have established purge.

It may be taken as settled that the misuse which is a bar to recovery does not automatically terminate with discontinuance of the misuse. *B. B. Chemical Co., supra,* 314 U. S. at 498. Whether the patentee's discontinuance of the improper practices, without cancellation of the license provisions which would authorize a resumption of such practice, constitutes a purge, would appear to depend upon all the attendant relevant circumstances. Cf. *Hazeltine* case, *supra,* 339 U. S. at 835.

What constitutes a purge obviously determines the scope and force of the patent misuse doctrine. To the extent that a patentee may readily free himself from the taint resulting from misuse of his patent, the misuse results in no substantial impairment of the rights which the patent grant confers. While

the Government does not suggest that the misuse doctrine should be viewed as in the nature of a penalty imposed for patent licensing which improperly extends the monopoly privileges conferred by a patent, we urge that where such misuse has been established it should bar enforcement of these privileges until the patentee has clearly and affirmatively shown not only that the improper use has ended, but also that the effects of the misuse are a thing of the past.

Application by this Court of rigorous standards for determining the required showing of purge should prove a strong deterrent against licensing patents with trade-restraining provisions not within the specific monopoly rights given by patent law. A decision by this Court laying down such standards would mean that a patentee would weigh the advantages which might be gained by reason of license provisions which overstep these exclusive rights, against the disadvantage of a period during which the patentee could not enforce his patent rights if it should be judicially determined that he had overstepped rights conferred by the patent grant.

We recognize that a patent license requires both a willing licensor and a willing licensee and that, under the misuse doctrine, a licensee may be able to use the patents of the licensor for a limited period without paying compensation therefor. Strict requirements as to what must be shown to establish purge may benefit those who are licensees under trade-restraining license agreements, and theoretically this will be an inducement to licensees to enter into such agreements. But agreements of this kind ordinarily are either

wholly for the benefit of the patentee (such as those with tie-in provisions) or they result from the patentee's possession of a patent of such importance and value that potential licensees do not dare risk suit for infringement and are therefore willing to accept licenses on the terms dictated by the patentee. On balance, therefore, we believe that considerations of antitrust policy support the view that the patentee who claims that he has ceased to misuse a patent should be required to show clearly and convincingly that there has been a purge. As previously stated, the Government's interest in this aspect of the case is limited to a concern that appropriate standards be adopted. We intimate no view as to the result which this would require as applied to the particular facts of this case.

CONCLUSION

For the foregoing reasons, this Court should hold that the district court had jurisdiction to enter the order which has been appealed. In determining whether in the circumstances of this case purge had been adequately established, the Court should apply sufficiently rigorous standards to make the patent-misuse doctrine an effective deterrent against violation of the antitrust laws.

Respectfully submitted,

J. LEE RANKIN,
Solicitor General.
VICTOR R. HANSEN,
Assistant Attorney General.
CHARLES H. WESTON,
EDWARD KNUFF,
Attorneys.

OCTOBER 1956.

U. S. GOVERNMENT PRINTING OFFICE: 1956

Office - Supreme Court,
FILED
OCT 2 7 1956
JOHN T. FEY, Cle

IN THE

Supreme Court of the United States

OCTOBER TERM, 1956.

No. 11

UNITED STATES GYPSUM COMPANY,
Appellant,

vs.

NATIONAL GYPSUM COMPANY, ET AL.,
Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA.

BRIEF OF APPELLEE CERTAIN-TEED PRODUCTS CORPORATION.

DONALD N. CLAUSEN,
HERBERT W. HIRSH,
NORMAN A. MILLER,
Attorneys for Appellee, Certain-teed Products Corporation.

CLAUSEN, HIRSH & MILLER,
135 South La Salle Street,
Chicago 3, Illinois,

PURCELL & NELSON,
910 17th Street, N. W.,
Washington 6, D. C.,
Of Counsel.

INDEX.

PAGE

Preliminary Statement 1

Questions Presented 2

Statement of the Case 3

The First Decision of This Court 5

Proceedings on Remand After First Decision of This Court 8

The Decree of November 7, 1949 9

The Second Appeal to This Court 11

The Final Decree of May 15, 1951 14

Events After the Entry of the May 15, 1951 Decree 16

Summary of Argument 24

Argument 32

I. The District Court Had Jurisdiction to Entertain and Determine the Issues Presented by Certain-teed and All Other Petitioners 32

II. The District Court Had the Power to Implement the 1951 Final Decree and to Modify That Decree in Order to Accomplish Such Implementation 37

The Basic Purposes of the 1951 Decree Were Effectuated by the 1954 Decree 43

III. The 1954 Decree Was a Proper Modification to Prevent USG's Violation of the 1951 Decree Through Suits on the Illegal License Agreements 46

IV. The District Court Correctly Ruled on the Record in This Case That as a Matter of Law USG Continued to Misuse Its Patents Until Entry of the 1954 Decree..... 51

Application of Hartford-Empire to the Case at Bar..... 62

V. USG's Contentions Based on Hartford-Empire, Rule 8 of the Federal Rules of Civil Procedure and 35 U. S. C., Section 271(d) Were Properly Rejected by the District Court..... 68

The Government's Position on the So-called Alternative Counts in USG's Complaints.. 80

Conclusion..... 82

TABLE OF CASES.

Aluminum Company v. United States, 302 U. S. 230 (1937) 34

Apex Electrical Mfg. Co. v. Altorfer Bros. Co., 130 F. Supp. 152 (S. D. Ill., 1955) 62

Armstrong v. DeForest Radio-Telephone & Telegraph Co., 10 F. 2d 727 (C. A. 2d, 1926), cert. den. 270 U. S. 663 ..... 40, 45

Associated Press v. United States, 326 U. S. 1 (1945). 62

B. B. Chemical Co. v. Ellis, 314 U. S. 495 (1942) 51

Bellavance v. Plastic-Craft Novelty Co., 30 F. Supp. 37 (D. C. Mass., 1939) 73

Besser Mfg. Co. v. United States, 343 U. S. 444 (1952) 61

In re Boston & Fairhaven Iron Works, 23 Fed. 880 (C. C. D. Mass., 1885) 74

Bruce's Juices v. American Can Co., 330 U. S. 743 (1947) 60, 74

Buckeye Co. v. Hocking Valley Co., 269 U. S. 42 (1925) 33

Carbice Corp. v. American Patents Corp., 283 U. S. 27 (1931) 73

Chrysler Corporation v. United States, 316 U. S. 556 (1942) 40, 50, 62

Cohan v. Robbins Music Corp., 244 App. Div. 697 (1st Dept., 1935) 74

Cole v. Hughes Tool Company, 215 F. 2d 924 (10th Cir., 1954) 79

Continental Wallpaper Co. v. Voight & Sons Co., 212 U. S. 227 (1909) 47, 60

Crosley Corporation v. Hazeltine Corporation, 122 F. 2d 925 (C. A. 3rd, 1941), cert. den. 315 U. S. 813 38

DeWitt v. Elmira Nobles Mfg. Co., 66 N. Y. 459 (1876) 74

Dugas v. American Surety Co., 300 U. S. 414 (1937)..38, 41
Gayler v. Wilder, 51 U. S. 477 (1850)..... 73
Guaranty Trust Co. v. Broadway & Seventh Avenue R. Co., 43 F. 2d 130 (S. D. N. Y., 1930)..... 38
Harriman v. Northern Securities Co., 197 U. S. 244 (1905).....34, 35
Hartford-Empire Co. v. United States, 323 U. S. 386 (1945); 324 U. S. 570 (1945).....
..28, 29, 45, 46, 62, 63, 64, 65, 66, 67, 69, 70, 71, 72, 73, 74, 75
Holmes v. Rowe, 97 F. 2d 537 (C. A. 9th, 1938)..... 37
Hughes v. United States, 342 U. S. 353 (1952)..... 41
International Salt Co. v. United States, 332 U. S. 392 (1947)..... 61
Katzinger Co. v. Chicago Metallic Mfg. Co., 329 U. S. 394 (1947).....48, 49
Kerotest Manufacturing Co. v. C-O-Two Fire Equipment Co., 342 U. S. 180 (1952).....38, 50
Kessler v. Eldred, 206 U. S. 285 (1907)..... 37
Kobe, Inc. v. Dempsey Pump Co., 97 F. Supp. 342 (N. D. Okla., 1951), aff'd 198 F. 2d 416 (10th Cir., 1952), cert. den. 344 U. S. 837.....62, 78, 79
Land v. Dollar, 190 F. 2d 366 (C. A. D. C., 1951), cert. dis. by agreement, 344 U. S. 806..... 38
Local Loan Co. v. Hunt, 292 U. S. 234 (1934).....33, 39
Master Metal Strip Service v. Protex Weatherstrip Mfg. Co., 169 F. 2d 700 (C. A. 7th, 1948), cert. den. 335 U. S. 898..... 77
Mercoid Corp. v. Mid-Continent Investment Co., 320 U. S. 661 (1944).....77, 78
Mercoid Corp. v. Minneapolis-Honeywell Regulator Co., 320 U. S. 680 (1944).....77, 78

Metals Disintegrating Co. v. Reynolds Metals Co., 107 F. Supp. 105 (D. Del., 1952), aff'd 228 F. 2d 885 (C. A. 3rd, 1956) 52

Missouri-Kansas Pipeline Co. v. United States, et al., 312 U. S. 502 (1941) 33

Morton Salt Co. v. Suppiger, 314 U. S. 488 (1942) 45, 46, 50, 51, 52, 54

MacGregor v. Westinghouse Electric & Mfg. Co., 329 U. S. 402 (1947) 48, 49

McCullough v. Kammerer Corp., 166 F. 2d 759 (C. A. 9th, 1948), cert. den. 335 U. S. 813 ..... 50, 51

National Foam System, Inc. v. Urquhart, 202 F. 2d 659 (C. A. 3rd, 1953) 52

National Lockwasher Co. v. George K. Garrett Co., 137 F. 2d 255 (C. A. 3rd, 1943) 50, 51

Newburgh Moire Co. v. Superior Moire Co., 105 F. Supp. 372 (D. N. J., 1952) 52

In re Paramount Publix Corp., 8 F. Supp. 644 (S. D. N. Y., 1934) 73, 74

Park-In Theatres v. Paramount-Richards Theatres, 81 F. Supp. 466 (D. Del., 1948), 90 F. Supp. 730 (D. Del., 1950), aff'd 185 F. 2d 407 (C. A. 3rd, 1950), cert. den. 341 U. S. 950 ..... 52, 54, 55

Pennsylvania Water & Power Co. v. Consolidated Gas, Electric Light & Power Co., 209 F. 2d 131 (C. A. 4th, 1953), cert. den. 347 U. S. 960 60

Ryan Distributing Corp. v. Caley, 51 F. Supp. 377 (E. D. Pa., 1943), aff'd 147 F. 2d 138 (C. A. 3rd, 1945), cert. den. 325 U. S. 859 73

S. C. Johnson & Son v. Johnson, 175 F. 2d 176 (C. A. 2d, 1949), cert. den. 338 U. S. 860 40

Schillinger v. United States, 155 U. S. 162 (1894) 73

Standard Oil Co. v. Clark, 163 F. 2d 917 (C. A. 2d, 1947), cert. den. 333 U. S. 873 34

Standard Oil Company v. Markham, 64 F. Supp. 656 (S. D. N. Y., 1945) 34

Stein v. Goddard, 22 Fed. Cas. No. 13,353 (C. C. Cal., 1856) 73

Stroco Products v. Mullenbach, 67 U. S. P. Q. 168 (S. D. Cal., 1944) 77, 78

Swift v. Black Panther Oil & Gas Co., 244 F. 20 (C. A. 8th, 1917) 38

Terminal Railroad Association of St. Louis v. United States, et al., 266 U. S. 17 (1924) 33, 41

Toledo Scale Co. v. Computing Scale Co., 261 U. S. 399 (1923) 38

United States v. Bendix Home Appliances, 10 F. R. D. 73 (S. D. N. Y., 1949) 33

United States v. Columbia Gas & Electric Corp., 27 F. Supp. 116 (D. Del., 1939) 34

United States v. Crescent Amusement Co., 323 U. S. 173 (1944) 62

United States v. General Electric Co., 272 U. S. 476 (1926) 7

United States v. International Harvester Co., 274 U. S. 693 (1927) 33

United States v. National Lead Co., 63 F. Supp. 513 (S. D. N. Y., 1945), aff'd 332 U. S. 319 (1947) 25, 29, 44, 45, 46, 62, 65, 69, 70, 71, 72

United States v. Northern Securities Co., 128 Fed. 808 (S. D. Minn., 1904) 33

United States v. Palmer, 128 U. S. 262 (1888) 74

United States v. Swift & Co., 286 U. S. 106 (1932) ... 40, 41

United States v. United States Gypsum Co., 333 U. S. 364 (1948) 5, 6, 7, 28, 43, 44, 61, 63, 66, 69, 71, 81

United States v. United States Gypsum Co., 339 U. S. 959 (1950).....11, 56
United States v. United States Gypsum Co., 339 U. S. 960 (1950).....11, 59, 63
United States v. United States Gypsum Co., 340 U. S. 76 (1950).....12, 13, 14, 28, 42, 43, 44, 45, 49, 50, 52, 56, 58, 59, 61, 63, 66, 69, 70, 71
United States v. Vehicular Parking, Ltd., 56 F. Supp. 297 (D. Del., 1944), 61 F. Supp. 656 (D. Del., 1945) 52, 62, 65
Urquhart v. United States, 109 F. Supp. 409 (Ct. of Claims, 1953)..... 52
Westinghouse Electric Corp. v. Bulldog Electric Products Co., 179 F. 2d 139 (C. A. 4th, 1950).....50, 52, 66

STATUTES AND RULES CITED.

Federal Rules of Civil Procedure—
Rule 8.....26, 69, 80
Rule 41 (b)..... 4
35 U. S. C., Section 271(d).....29, 30, 69, 77, 78, 79, 80
35 U. S. C., Section 281..... 73
35 U. S. C., Section 283..... 73
35 U. S. C., Section 284..... 73

MISCELLANEOUS CITATIONS.

69 C. J. S. 890 73
Hearings Before Committee on the Judiciary on H. R. 5988, 80th Cong., 2d Sess. (1948) 78
Hearings Before Committee on the Judiciary on H. R. 3866, 81st Cong., 1st Sess. (1949) 78
Hearings Before Committee on the Judiciary on H. R. 3760, 82d Cong., 1st Sess. (1951) 78
H. B. Rep. No. 1923, 82nd Cong., 2nd Sess., p. 9 (1952) 79
Joint Brief for Appellants on Reargument, September 1944, in Hartford-Empire 65
Giles S. Rich — "Infringement Under Section 271 of the Patent Act of 1952"; 21 Geo. Wash. L. Rev. 521 77
Sen. Rep. No. 1979, 82d Cong., 2d Sess., p. 8 (1952) ... 79
1 Williston on Contracts § 3 73

IN THE

Supreme Court of the United States

OCTOBER TERM, 1956.

No. 11.

UNITED STATES GYPSUM COMPANY,
Appellant,

vs.

NATIONAL GYPSUM COMPANY, ET AL.,
Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA.

BRIEF OF APPELLEE CERTAIN-TEED PRODUCTS CORPORATION.

PRELIMINARY STATEMENT.

This brief is submitted on behalf of appellee, Certain-teed Products Corporation ("Certain-teed") one of the petitioners below. Appellee does not include herein any statement as to Opinions Below, Jurisdiction, and Statutes and Rules Involved, as it is satisfied with their presentation in the brief of appellant United States Gypsum Company ("USG").[1]

1. With reference to appellant's footnote (USG Br. 3) to the effect that appellees Newark Plaster Company ("Newark") and Ebsary Gypsum Company ("Ebsary") and USG adjusted their controversies by the payment of certain sums by Ebsary and Newark to USG in settlement of the latter's claim against them for use of its patents, Certain-teed deems it pertinent to advise the Court that subsequent to the entry of the District Court's decree of December 9, 1954, Newark and Ebsary sold all of their assets to Allied Chemical Company and Ruberoid Company, respectively, and that as a condition of such sale it was required that all unliquidated claims against Newark and Ebsary be paid and disposed of.

However, as to the matters contained in appellant's brief relative to Questions Presented and Statement of the Case, Certain-teed believes that they are not correctly or adequately stated. Therefore, a revised Questions Presented is included in this brief. A revised Statement of the Case is also set out hereinafter, in order that Certain-teed may present to this Court matters which have been omitted from appellant's Statement of the Case which appellee believes are essential to a proper consideration of the decree of the United States District Court for the District of Columbia entered on December 9, 1954, modifying the decree of May 15, 1951,[2] from which USG appeals.

QUESTIONS PRESENTED.

1. May USG, having been adjudicated guilty of Sherman Act violations, enjoy the fruits of its inequity through the device of suits for royalties, or for compensation which is the equivalent thereof?

2. Does the misuse disclosed by the record in this case bar recovery by USG?

3. Does the admitted attempt of USG in the suits filed by it to recover on the very license agreements held violative of the Sherman Act constitute such evidence of misuse as to warrant the District Court in taking action through modification of its prior decree to prevent such recovery?

4. Does the record in this case, including the issues raised in appellees' petitions and USG's answers thereto, permit adjudication as a matter of law, without the taking of any evidence, of the patent misuse during any or all of

2. This decree is sometimes referred to herein as the "1951 decree" or the "final decree". The appealed from decree is sometimes referred to herein as the "1954 decree".

the period from February 1, 1948, to and including the date of filing USG's suit?

5. Does the final decree of May 15, 1951 expressly, or by fair intendment, bar USG from suing upon the said license agreements or for reasonable compensation for use of its patents by the co-defendants, patent licensees, during the period from February 1, 1948 to May 15, 1951?

6. Do the basic purposes of the May 15, 1951 decree authorize the modification of that decree which the District Court entered on May 9, 1954?

7. Does the District Court have, and did the District Court properly take, jurisdiction to entertain the petitions of the appellees and to enjoin the suits filed by USG against the appellees?

STATEMENT OF THE CASE.

This appeal involves a controversy between appellant and appellees, who were co-defendants in a civil anti-trust suit instituted by the United States in 1940 and terminated by a final decree entered May 15, 1951.

This decree, among other things, declared patent license agreements granted by appellant to appellees to be illegal, null and void (R. 567). Subsequent to the entry of this decree, suits to recover royalties under said illegal patent license agreements, or the equivalent of such royalties for the use of the patents licensed, were commenced by USG in the District Courts of Iowa, New York and New Jersey (R. 614-654). The District Court, on December 9, 1954, upon petition of appellees, answers thereto of USG, briefs and oral argument, modified said decree of May 15, 1951 to enjoin USG from prosecuting its suits (R. 1159). USG appealed from the decree of modification.

In the anti-trust suit from which all of the foregoing

stems, the Government's complaint charged the defendants were conspiring to fix prices on patented gypsum board and unpatented gypsum products, and otherwise to restrain and monopolize interstate commerce in gypsum board and other gypsum products, in violation of Sections 1, 2 and 3 of the Sherman Act (1947 R. 1).[3]

On March 12, 1943 (1947 R. 350), the District Court granted leave to the Government to amend the prayers in its complaint to include, *inter alia*, a request (1947 R. 347):

> "That the defendant companies, and each of them, and their directors, officers, employees and agents, and all persons or corporations acting on behalf of said companies be enjoined from
>
> (a) bringing any action for infringement of any patent or patents now owned or controlled by any of the defendants or hereafter issued on pending applications now owned or controlled by any of the defendants,
>
> (b) attempting by suit or otherwise to collect royalties or license fees or profits for the use of patents now owned or controlled by any of the defendants or hereafter issued on pending applications now owned or controlled by any of the defendants relating to gypsum products or to any process or machine used in connection with gypsum products, *until it is made to appear to the Court that all improper practices have been abandoned and the consequences of all misuses of patents have been dissipated.*" (Emphasis added.)

This prayer was never withdrawn.

At the close of the Government's evidence, the defendants moved to dismiss the complaint under Rule 41(b) of

---

3. The record filed in the Government's appeal to this Court (333 U. S. 364) will be referred to in this brief and will be designated "1947 R", followed by the page number. All other record references herein will be to the record printed on this appeal and will be designated "R", followed by the page number.

the Federal Rules of Civil Procedure (1947 R. 3901-3905). On June 15, 1946, the District Court sustained this motion and rendered its opinion (1947 R. 3933-4131) (67 F. Supp. 397). On August 5, 1946, the District Court entered judgment dismissing the complaint (1947 R. 4169).

The First Decision of This Court.

On appeal, this Court reversed the judgment of dismissal and remanded the case for further proceedings in conformity with its opinion. *United States* v. *United States Gypsum Company*, 333 U. S. 364 (1948).

In its opinion, handed down March 8, 1948, this Court first summarized the undisputed facts. It stated that (333 U. S. at 368-369):

> "Since its organization in 1901, United States Gypsum has been the dominant concern in the gypsum industry. In 1939, it sold 55% of all gypsum board in the eastern area. By development and purchase it has acquired the most significant patents covering the manufacture of gypsum board, and beginning in 1926 United States Gypsum offered licenses under its patents to other concerns in the industry, all licenses containing a provision that United States Gypsum should fix the minimum price at which the licensee sold gypsum products embodying the patents. Since 1929, United States Gypsum has fixed prices at which the other defendants have sold gypsum board."

This Court noted that the license agreements between USG and the other corporate defendants were generally products of settlements of infringement claims and suits instituted by USG. This Court described the background and negotiation of these license agreements, and concluded this description by pointing out that in 1929 (333 U. S. at 371):

> "two sets of license agreements were signed in which

> United States Gypsum licensed all but two companies manufacturing gypsum board in substantially identical terms and from that date United States Gypsum has maintained rigid control over the price and terms of sale of virtually all gypsum board. Since 1937 the control has been complete."

After stating the undisputed facts, this Court moved on to a description of the Government's charges and of the proof adduced by the Government in support of those charges (333 U. S. at 371-386). This Court stated that it appeared from the Government's evidence that the defendants "had defined in minute detail" both the prices and terms of sale for patented gypsum board, adopted a delivered price-basing point system, specified board sizes, prescribed minimum quantities, regulated terms of delivery, and prohibited consignment sales (333 U. S. at 382-383).

This Court found, in addition, a conspiracy illegally to suppress and/or control the sale of unpatented gypsum board and plaster. With respect to unpatented gypsum board, this Court said (333 U. S. at 397):

> "The provision of the license contract that royalties should be paid on the production of unpatented board is strongly indicative of an agreement not to manufacture unpatented board, and the testimony of the witnesses is ample to show that there was an understanding, if not a formal agreement, that only patented board would be sold. Such an arrangement in purpose and effect increased the area of the patent monopoly and is invalid."

With respect to plaster, this Court said (333 U. S. at 399):

> "The (price bulletins issued, pursuant to license agreements) and the complaints by licensees addressed to Board Survey (agency established under the license

> agreements to police compliance with the agreements) convince us that the defendants attempted to stabilize plaster prices * * *."

Finally, this Court concluded from the "uncontradicted evidence" that "the defendants had acted in concert to eliminate an important class of jobbers." 333 U. S. at 398.

On the basis of its appraisal of the facts proved by the Government, this Court concluded that the patent license agreements and the price bulletins issued pursuant thereto plainly showed a conspiracy to violate the Sherman Act. 333 U. S. at 400. It concluded, further, that its prior decision in *United States* v. *General Electric Co.*, 272 U. S. 476 (1926), upholding the power of a patentee to fix the prices at which a patented product is to be sold by a licensee, "affords no cloak for the course of conduct revealed in the voluminous record in this case." 333 U. S. at 400. This Court said (333 U. S. at 400-401):

> "That case gives no support for a patentee, acting in concert with all members of an industry, to issue substantially identical licenses to all members of the industry under the terms of which the industry is completely regimented, the production of competitive unpatented products suppressed, a class of distributors squeezed out, and prices on unpatented products stabilized. * * * The rewards which flowed to the patentee and his licensees from the suppression of competition through the regulation of an industry are not reasonably and normally adapted to secure pecuniary reward for the patentee's monopoly."

On the basis of these findings and conclusions, and since the District Court's order of dismissal had come at the end of the Government's presentation of its evidence, this Court reversed the order of dismissal and remanded the case for further proceedings in conformity with its opinion. 333 U. S. at 401-402.

Proceedings on Remand After First Decision of This Court.

Following remand of the case to the District Court, the Government filed a motion for summary judgment (R. 35) and defendants filed offers of proof (R. 36-54). The District Court heard argument on the Government's motion in relation to defendants' offer (R. 54-137) and ruled that the offered proof gave rise to no genuine issue as to any fact material to an adjudication that the defendants had violated the Sherman Act and that the motion for summary judgment should be allowed (R. 137-140, 471). Judge Stephens dissented (R. 478).

Thereafter the Government filed proposed findings of fact and conclusions of law and a proposed decree (R. 157). Article VII of the Government's proposed decree provided for the cancellation of the patent license agreements and enjoined the defendants from further performance thereof (R. 163).

Subject to its objection to the entry of any judgment for the Government, USG filed proposed findings and conclusions and a proposed decree (R. 188). Article IV of USG's proposed decree reads as follows (R. 192):

> "1. The minimum price provisions of the Patent Licenses are hereby declared to be illegal.
>
> "2. Each of the Patent Licenses is hereby cancelled and terminated."

At the hearing on the decree proposals, the Government proposed to amend that portion of its proposed decree cancelling the license agreements by substituting a declaration that the patent license agreements were unlawful under the anti-trust laws and illegal, null and void (R. 407). After the hearing, memoranda were filed by various of the parties. In their memoranda certain of the appellees

also subsequently proposed that the decree adjudicate the license agreements to be "illegal, null and void" (R. 424, 430). In its reply memorandum USG said, *inter alia*,

> "The defendants, licensees, can have no purpose in making the suggestion that each patent license be judged illegal except to obtain some advantage with respect to the use of the patents. *They apparently believe it will relieve them from accounting for anything done either before or after the Supreme Court's decision* (of March 8, 1948)." (Emphasis added) (R. 437, 440, 444).[4]

The Decree of November 7, 1949.

On November 7, 1949, the District Court entered a final decree (R. 471). Article II of that decree read, in part as follows (R. 473):

> "As used in this decree:
>
> • • • • •
>
> 4. 'Patent Licenses' shall mean the patent license agreements which were in effect between defendant United States Gypsum Company and each of the other defendant companies at the time the complaint herein was filed and described in said complaint as follows:
>
> Agreement dated October 15, 1929, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee;

4. In a memorandum filed by the Government on August 4, 1949, formally requesting that its proposal to have the decree contain an adjudication of "illegal, null and void," the Government said:

> "The USG contention against declaring the license agreements null and void is based on the assumption that only the price-fixing provisions of the licenses are invalid. *It is the Government's position and that of the licensees, that the price terms are not severable from the remaining provisions of the licenses. The whole contract is plainly vitiated by these provisions and must be declared void."* (Emphasis added).

Agreement dated October 17, 1929, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee;

• • • • •

Agreement dated November 5, 1929, between United States Gypsum Company as licensor, and Universal Gypsum and Lime Company (National Gypsum Company, as Assignee), as licensee;

• • •"

Article IV of the decree provided that (R. 475):

"Each of the license agreements listed in Article II hereof is *adjudged unlawful* under the anti-trust laws of the United States and *illegal*, null and void." (Emphasis added)

Article V of the decree then went on to enjoin the defendants from (R. 475):

"(1) the further performance or enforcement of any of the provisions of the Patent Licenses, including any price bulletin issued thereunder;

(2) entering into or performing any agreement or understanding among the defendants or any of them for the purpose or with the effect of continuing, reviving or reinstating any monopolistic practice;

(3) entering into or performing any agreement or understanding among the defendants or any of them in restraint of trade and commerce in gypsum board among the several states in the eastern territory of the United States by license agreements to fix, maintain or stabilize prices of gypsum board or the terms and conditions of sale thereof."

Article VI of the Court's decree (R. 476) directed USG, within ninety days of the effective date of the decree, to grant, upon application, a non-exclusive license under USG's then owned gypsum board patents, at a royalty not in excess of the royalty on the same article or process fixed in the license agreements declared null

and void by the decree (Article IV, R. 475). Article VIII of the decree provided that USG could satisfy the obligation thus imposed on it under Article VI by tendering a license agreement containing the provisions set forth in the forms of agreement "ordered filed herein" and "hereby approved" (R. 476).

USG did *not* tender a new license agreement to any of its licensees. Nor did it make a demand for royalties which had by then accumulated (under the terms of the license agreements) for more than a year and a half (R. 662). USG and two of its officers, however, appealed to this Court (R. 504).

The Second Appeal to This Court.

The basis of USG's appeal was that, on the record as it stood when the District Court granted the Government's motion for summary judgment, there was substantial controversy between the parties as to facts material to the issue of defendants' violation of Sections 1 and 2 of the Sherman Act, and that the District Court therefore erred in entering judgment against the defendants on such motion. On May 29, 1950, the Supreme Court entered an order dismissing USG's appeal. 339 U. S. 959.

The Government also appealed to this Court from the District Court's decree of November 7, 1949 (R. 509). The sole ground of the Government's appeal was that the final judgment of the District Court failed to give adequate relief against the defendants. On May 29, 1950, the same day on which it dismissed USG's appeal, this Court noted probable jurisdiction of the Government's appeal, and further ruled as follows (339 U. S. 960):

> "Article III of the decree of the District Court of November 7, 1949, reading as follows: 'The defendant companies have acted in concert in restraint of

> trade and commerce among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board and have monopolized trade and commerce in the gypsum board industry in violation of sections 1 and 2 of the Sherman Antitrust Act,' is affirmed. The corporate defendants and Samuel M. Gloyd, doing business as Texas Cement Plaster Company, are enjoined, pending further order of this Court from (1) enforcing in any manner whatsoever the provisions of their current license agreements fixing, maintaining or stabilizing prices of gypsum board or the terms and conditions of sale thereof, and (2) from entering into or performing any agreement or understanding in restraint of trade and commerce in gypsum board among the several states in the eastern territory of the United States by license agreements to fix, maintain or stabilize prices of gypsum board or by license or other concerted action arranging the terms and conditions of sale thereof."

The appeal by the Government to this Court raised only issues arising out of the Government's efforts to have the provisions of the District Court decree enlarged. On that appeal, this Court, in its opinion (340 U. S. 76), stated that the basis of its former judgment was that (340 U. S. 84):

> "It would be sufficient to show that the defendants, constituting all former competitors in an entire industry, had acted in concert to restrain commerce in an entire industry under patent licenses in order to organize the industry and stabilize prices."

In its second opinion, this Court also determined that the injunction against violations of the Sherman Act, limited to gypsum board, should be extended to cover all gypsum products; that other practices in aid of the conspiracy, such as standardizing products, classifying customers and adopting the use of delivered pricing systems should be specifically enjoined; that the patent abuses

were of such scope and nature as warranted (a) compulsory licensing of existing patents to all applicants, and (b) compulsory licensing of USG's future patents for a period of time.

In connection with the foregoing, this Court stated (340 U. S. at 90-91):

> "• • • The license agreements, as indicated above, required royalties on unpatented open edge gypsum board. Board Survey, the organization created to enforce the license agreements, found possibilities of price evasion to exist by a licensee's cutting prevailing prices on other commodities, sold in conjunction with patented gypsum board. Bulletins, issued to standardize sale practices, criticized rebates as violative of the license agreements. 333 U. S. 364, 386. Defendants' offer of proof did not deny such effort to systematize sales. Their explanation was that the efforts were to enforce legitimate license agreements and were not calculated steps in conspiracy or monopoly. We think the Government's request that the decree's injunctions reach gypsum products, as defined in its proposed decree, is reasonable and should be allowed."

This Court further stated (340 U. S. at 91):

> "• • • Our former *Gypsum* opinion, pp. 382-383, gives a summary of the methods adopted. Another method of regulating sales was by special provision for certain classes of customers, jobbers and manufacturing distributors. See 333 U. S. at 397 and 399, n. 18. We think this would justify the Government's requests." • • •

This Court also stated, with regard to the Government's request for an injunction directed against selling according to a delivered pricing system (300 U. S. at 92):

> "• • • Since the conspiracy for restraint of trade is furthered by this arrangement, use of such a method should be barred for the future." • • •

This Court admonished that in framing the Final Decree, the District Court should "cure the ill effects of the illegal conduct" (340 U. S. at 88), and that "The conspirators should, so far as practicable, be denied future benefits from their forbidden conduct" (340 U. S. at 89).

The Final Decree of May 15, 1951.

Pursuant to the second decision of this Court, the District Court entered its final decree on May 15, 1951 (R. 562). The full text of that decree is attached to appellant's brief as Appendix B.

Article II (5) of the Final Decree reads, in part, as follows (R. 565):

> "5. 'Patent Licenses' shall mean the patent license agreements which were in effect between defendant United States Gypsum Company and each of the other defendant companies at the time the complaint herein was filed and described in said complaint as follows:
>
> Agreement dated October 15, 1929, between United States Gypsum Company, as licensor, and Certain-teed Products Corporation, as licensee.
>
> Agreement dated October 17, 1929, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee;
>
> • • • • •
>
> Agreement dated November 5, 1929, between United States Gypsum Company, as licensor, and Universal Gypsum and Lime Company (National Gypsum Company, as Assignee), as licensee;
>
> • • • • •
>
> *and any supplement or amendment to any of said patent license agreements.*" (Emphasis added.)

Article IV of the Final Decree provides that (R. 567):

> "Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void."

Article V of the decree provides as follows (R. 567):

"The defendant companies, and their respective officers, directors, agents, employees, representatives, subsidiaries, and any person acting or claiming to act under, through or for them, or any of them, be and each of them hereby is enjoined from entering into or performing any agreement or understanding among the defendant companies or other manufacturers of gypsum products to fix, maintain or stabilize, by patent license agreements or other acts or course of action, the prices, or the terms or conditions of sale, of gypsum products sold or offered for sale to other persons, in or affecting interstate commerce; and from engaging in, pursuant to such an agreement or understanding, any of the following acts or practices:

(1) agreeing upon any basis for the selection or classification of purchasers of gypsum products;

(2) refraining from selling gypsum products to any purchaser or any class of purchasers;

(3) agreeing upon any plan of selling or quoting gypsum products at prices calculated or determined pursuant to a delivered price plan which results in identical prices or price quotation by defendants using such plan;

(4) policing, investigating, checking or inquiring into the prices, quantities, terms or conditions of any offer to sell or sale of gypsum products."

Article VI provides for compulsory licensing by USG at reasonable non-discriminatory royalties and, in addition, makes provision for the determination by the Court of a reasonable royalty where the patentee and the applicant are unable to agree upon a reasonable royalty (R. 567).

Finally, Article X of the Decree provides that (R. 571):

"Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound

thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith."

Certain-teed paid all royalties due under its license with USG until this Court's opinion of March 8, 1948 held such license agreement to be illegal and invalid. Thereafter, commencing with the month of April, 1948, Certain-teed paid no royalties to USG under said unlawful license (R. 661). Appellee National Gypsum Company (National) paid all royalties under its license until March 10, 1948, after which date it paid no further royalties to USG (R. 607). Other appellees also failed to pay royalties to USG under their unlawful license for approximately the same period.

Events After the Entry of the May 15, 1951, Decree.

After May 15, 1951, Certain-teed and National entered into license agreements with USG under U. S. Patent No. 2,017,022, which was effective as of the date of the decree of May 15, 1951 (R. 607, 662, 783).

USG did not inform or advise the District Court of any claim for royalties now claimed by it, nor did it seek to recover such unpaid royalties as a condition to granting the new license provided for in the 1951 decree. No reference was made in the new license to any alleged past due royalties (R. 662).

On March 11, 1953, USG filed suit against Certain-teed in the United States District Court for the Northern District of Iowa, seeking to recover past due royalties alleged to be due under the unlawful license agreement for the period April 1, 1948, and May 15, 1951. A similar complaint was filed against National in the same court on

January 28, 1953. Similar suits were also filed against Newark in the United States District Court for the District of New Jersey and against Ebsary in the United States District Court for the Southern District of New York (R. 614-654).

Count I of USG's complaint is based entirely on the unlawful license and claims royalties against Certain-teed in the amount of $650,000. In Count 1, USG alleges that it, as licensor, and Certain-teed, as licensee, entered into a license agreement dated October 15, 1929, covering patent No. 2,017,022; that, for the privilege of using said patent, Certain-teed agreed to pay to USG a license fee or royalties equivalent to 1% of Certain-teed's selling price of gypsum board manufactured and sold by it; that Certain-teed failed and refused to pay license fees or royalties for the month of April, 1948, to May 15, 1951, although during that period Certain-teed continued to manufacture and sell gypsum board under said license; that, pursuant to the provisions of said license agreement, Certain-teed, during the period commencing on April 1, 1948 and ending on May 14, 1951, manufactured and sold great quantities of gypsum board as a result of which Certain-teed became indebted to USG for license fees or royalties aggregating $650,000 (R. 646-648).

In Count II, USG alleges that on or about April 1, 1948, USG and Certain-teed determined to discontinue compliance with the provisions of the license agreement and agreed Certain-teed would account for and pay to USG *under said license agreement* the royalty of 1% of Certain-teed's selling price for gypsum board manufactured and sold by it embodying or making use of the invention disclosed and claimed in patent No. 2,017,022. The amount claimed under this agreement is $650,000. (Emphasis added.)

(Counts 1 and 2 are counts directly based on the license agreement adjudicated to be illegal, null and void under the anti-trust laws, although USG at p. 14 of its brief elaborately avoids saying so. At pp. 31 and 44 of its brief, however, USG admits that these counts are based on the license agreements.)

In Count III, USG alleges that on or about April 1, 1948, Certain-teed repudiated the license agreement of October 15, 1929; that USG acquiesced in such repudiation; that Certain-teed made use of patent No. 2,017,022, and in consideration of such use promised to pay to USG the reasonable value thereof. The amount claimed under such promise is $650,000.

In Count IV, USG alleges that on March 11, 1953, Certain-teed, being indebted to USG in the amount of $650,000 for the use of patent No. 2,017,022 between April 1, 1948 and May 15, 1951, promised to pay that amount to USG but failed to do so.

Counts III and IV are described by counsel for USG as *quantum meruit* counts (R. 689).

In Count V, USG charges infringement by Certain-teed of patent No. 2,017,022 for the period from April 1, 1948, to May 15, 1951, and alleges that it has been damaged by such infringement in the amount of $650,000.

Certain-teed filed an answer to USG's complaint in the District Court of Iowa and joining issue on all material allegations of the complaint and pleaded especially, among other things, that USG's suit was barred by the 1951 final decree (R. 725). A similar answer was filed by National (R. 710).

Upon motion made by Certain-teed to stay all further proceedings pending disposition of Certain-teed's petition in the District Court for the District of Columbia, the District Court of Iowa entered an order staying USG's suit

in that court (R. 773). A similar order was entered on the motion of National (R. 766).[5]

On April 22, 1953, Certain-teed filed a petition in the District Court (R. 657) in which, among other things, it alleged the filing of USG's suit in the District Court of Iowa; the allegations of USG's complaint; that said suit was, in effect, an attempt to obtain royalties provided to be paid under the unlawful license agreement or the equivalent of such royalties in damages; that said suit was barred by the final decree of this Court entered on May 15, 1951; and that, as a matter of law, USG's misuse of its patents prevented it from collecting on royalties thereon for any period prior to May 15, 1951.

---

5. On July 9, 1953, Assistant Attorney General Barnes, in support of National's motion for a stay, wrote to the District Judge for the Northern District of Iowa, in part, as follows:

"The United States has an interest in securing full and complete observance of the final judgment entered in the Sherman Act proceeding. On June 30, 1953, it filed in that proceeding a petition which alleges that insofar as the actions which USG has brought against co-defendants (including National Gypsum Co. and Certain-teed Products Corp.) base any claim for recovery on any license agreement adjudged illegal, null and void by the final judgment entered in the antitrust proceeding, such actions are barred by, and constitute an attempt to defeat, said judgment. The petition, a copy of which is enclosed, further states that the United States takes no position as to whether the judgment bars the remaining claims made by USG in these actions, or as to whether the District Court for the District of Columbia should enter an order enjoining USG from prosecuting such further claims. *The United States has no doubt that the district court which entered the antitrust judgment has jurisdiction to enjoin USG from prosecuting the claims made in the instant actions pending in your court. The United States also has no doubt that said district court constitutes a proper tribunal to adjudicate the scope and effect of the prohibitions of its present judgment. In addition that court is alone empowered to determine what further orders, if any, it will issue by way of implementation or modification of its present judgment.*

Under the foregoing circumstances, it would seem appropriate, as well as a matter of judicial comity, to grant the pending motion for stay. * * *" (Emphasis added.)

Certain-teed's petition further alleged that the question of USG's right to collect royalties under its misused patents was inherent in the issues before the District Court; that USG was under the duty, if it sought or attempted to recover such royalties, to apply for and secure the determination of the District Court that it had terminated its misuse and that the evil consequences thereof had been dissipated so that it might thereafter enforce its right to collect compensation for such misused patents; that USG having failed to so apply to the District Court, it was now barred from claiming such compensation for the period prior to May 15, 1951.

It was finally alleged in Certain-teed's petition that any attempt by USG to collect royalties for a period prior to the entry of the final decree of the District Court on May 15, 1951, could be made only in the District Court which entered the final anti-trust decree; that the action filed by USG to enforce the unlawful license agreement in the United States District Court of Iowa constituted a direct attack on the final decree of the District Court; that by its said action USG had made manifest that it was still relying upon the license agreement which the Supreme Court on two occasions and the District Court by its final decree, had held to be illegal, null and void, and that the royalty agreement contained in the license agreement of October 15, 1929, was not severable from the price fixing and other provisions thereof which the Supreme Court and the District Court had held to be unlawful under the anti-trust laws of the United States, and illegal, null and void.

The permanent relief sought by Certain-teed was stated as follows:

(1) An order permanently enjoining USG from further prosecuting the action filed by it against Certain-teed in the District Court of Iowa.

(2) An order permanently enjoining USG from asserting any claim against Certain-teed for payment for the use of said misused patent No. 2017022, or any of its other misused patents.

(3) An order permanently enjoining USG from instituting or threatening to institute, or from maintaining or continuing any action for payment for the use of any misused patent for any period prior to May 15, 1951 (R. 657-665).

Similar petitions were filed by National, Newark and Ebsary (National, R. 604, Newark, R. 666, Ebsary, R. 669).

On June 30, 1953, the United States filed its petition "For Orders or Directions for the Construction, Carrying Out or Enforcement of the Final Decree of May 15, 1951" (R. 757). In its petition, the Government asked the District Court to "enjoin USG from asserting any claim, and from instituting, threatening to institute, or maintaining any action, based, in whole or in part on any of the license agreements adjudged illegal, null and void by the final decree of this Court entered on May 15, 1951, or on any provision thereof" (R. 759). The Government took no position whether USG's alternative claims were barred by the decree of the District Court entered on May 15, 1951 or whether the District Court should enter an order enjoining USG from prosecuting such claims (R. 759).

On September 9, 1953, USG filed its answers to each of the petitions, putting in issue the allegations upon which relief was claimed and alleged affirmative defenses (R. 777, 790, 800, 805, 810). Briefs were filed by all parties in support of and in opposition to the petitions (R. 774, 775, 812, 814) and oral argument was had on January 12 and 13, 1954 (R. 819, 901).

On July 6, 1954, the District Court, one Judge dissenting, filed an opinion sustaining the petitions and holding, among

other things, that further prosecution of the USG suits should be enjoined (R. 975-1015) (124 F. Supp. 573). On December 9, 1954, the District Court, one Judge dissenting, entered a decree amending the 1951 decree by adding to it a paragraph directing USG to dismiss with prejudice its pending actions against the four corporate petitioners (R. 1159). Thereafter, motion for a new trial was made by USG and briefs were filed in connection therewith by all of the parties. Oral argument was had by the District Court on the motion for a new trial on April 26, 1955 (R. 1214), which was denied (R. 1335, 1336) (134 F. Supp. 69).

The District Court concluded, as the basis for its decree of December 9, 1954, that USG should be enjoined from further prosecuting the Counts I and II of its suit as they were directly based on the license agreements (R. 991, 1011), and since in asserting them the defendant "clearly violate(d) the express provisions of Article IV" (R. 991), the provision of the final decree which declared the patent license agreement to be null and void. As to Count III of USG's complaint the District Court found it was "but a left handed, indirect method for recovering such royalties" (those provided for in the illegal license agreements). The District Court further concluded that since Article IV of the final decree did not expressly or impliedly cover the counts for *indebitatus assumpsit* or for *quantum meruit*, although they are "posed on the same underlying factual situation created by the license agreements" (R. 1011) it would modify the decree in order to enjoin prosecution of such counts (R. 1015). It pointed out that the "purpose and permissible function of an order for modification of an anti-trust decree is to cover something within the broad purposes of the decree but which, for some proper reason, was not included in the existing decree. Almost always, such modifications are concerned with remedies. Usually they concern situations which were either over-

looked at the time the decree was entered or which have arisen or developed after the decree" (R. 999). It noted that it had expressly reserved jurisdiction in Article X of the final decree "to take further action, if experience thereafter should make such necessary or advisable, fully to effectuate the purposes of destroying the monopoly and conspiracy and denying the fruits thereof" (R. 1157). The District Court also concluded that in addition to its expressly reserved power in the final decree, as a Court of Equity it had inherent power to modify its decrees "so as to make them fully effective, provided, however, that the decree may not be enlarged beyond its intended proper scope." (R. 1157). It further concluded that USG had not at any time prior to May 15, 1951, purged itself of its patent misuse and consequently "should be enjoined from further prosecution of all Counts." (R. 1157). It stated that to "allow prosecution of these suits would weaken the effectiveness of the Final Decree" (R. 1157) and both "*because of the practical and legal situation in this case,* and also the teaching in the *Hartford-Empire* case" (emphasis added) it enjoined their further prosecution (R. 1158).

This appeal was taken by USG following the denial of its motion for a new trial by the District Court, one Judge dissenting, on June 30, 1955 (R. 1340).

SUMMARY OF ARGUMENT.

I.

The District Court, under Article X of the 1951 decree, under its inherent equity powers, because of multiplicity of actions, and because of the underlying purposes of the 1951 decree, had and properly exercised its jurisdiction to entertain and determine the issues presented by the petitions of the appellees.

The appellees were parties to the 1951 decree and therefore had a standing to seek relief from the District Court which entered that decree.

The District Court correctly distinguished the authorities relied on by USG and held them to be inapplicable.

The Government did not oppose the petitions filed by appellees but, in fact, sought to enforce the 1951 decree in the same manner sought by the appellees. Counts I and II of USG's complaint filed in the District Courts of Iowa, New York and New Jersey were based on the illegal license agreements, and the Government's petition to enjoin such suits, based in whole or in part on any of the illegal license agreements or on any provision thereof, asked for the same relief as prayed for by the corporate appellees.

The District Court properly held that prevention of multiplicity of actions was a proper basis of equity jurisdiction and that such jurisdiction was present in this case.

II.

The District Court had the power to prevent violation of its decree and to enforce compliance therewith and had the power to implement its decree and modify it in order to effectuate its basic purpose.

To allow USG to proceed with its action in the District Courts would be to interfere with and, in effect, nullify the 1951 decree.

The District Court had full power to protect and compel obedience to the declaratory provisions of its decree, such as those adjudicating the license agreements illegal, null and void.

The District Court properly implemented the 1951 decree through modification to specifically enjoin enforcement of USG's misused patents through the vehicle of its suits in the District Courts of New York and New Jersey. The basic purposes of the 1951 decree were effectuated by the modification order by the District Court's 1954 decree.

The basic purposes of the 1951 decree were to eliminate USG's rigid and complete control over the price and terms of sale of virtually all gypsum board; to cure the ill effects of monopolization and action to restrain commerce in an entire industry under patent licenses, in order to organize the industry and stabilize prices; to cure violations, at least as offensive to the prohibitions of the Sherman Act as those in *United States* v. *National Lead Co.*, 63 F. Supp. 513 (S. D. N. Y., 1945), affirmed 332 U. S. 319 (1947); and to deny future benefits to the conspirators from their forbidden conduct.

USG's Sherman Act violation was not a narrow one.

III.

The District Court, by its 1954 decree, granted relief in accordance with the doctrine announced by this Court denying aid to patentees who have misused their patents.

The question of royalties under the illegal license agreements was squarely covered by Article IV of the 1951 decree. Article IV of the 1951 decree was recognized to pre-

clude recovery by USG for use of its patents prior to the 1951 decree.

The determination of the 1951 decree that the patent license agreements were illegal, null and void in their entirety was a determination of USG's lack of right to enforce the royalty provision of the patent licenses.

The modification of the 1951 decree by the District Court, enjoining USG from enforcing its misused patents against appellees for the period prior to the entry of the 1951 decree effectuated the basic purpose of said decree.

The discretion of the trial court in modifying a litigated decree is greater than its discretion in the molding of the initial decree; an ample degree of discretion must be left to the lower courts in molding and modifying decrees.

IV.

By the opinions of this Court, USG was found to have misused its patents to, among other things, fix and maintain prices, suppress competition of unpatented products, boycott jobbers, and monopolize an industry through price control.

During the period from this Court's first opinion to the entry of the District Court's 1951 decree and beyond, as evidenced by USG's suits on the illegal license agreements, there has been no purge by USG of the misuse of its patents. Prior to the entry of the 1951 decree USG made no attempt to secure the determination of the District Court that it had terminated the misuse of its patents and that the evil consequences thereof had been dissipated; no showing was made by USG that it had abandoned any of the restrictions of its license agreements. USG is still relying upon its illegal license agreements, as evidenced by the suits filed by it against appellees.

The doctrine of misuse bars USG's suits based on the unlawful license agreements.

USG's misuse of its patents and failure to purge such misuse are evidenced by USG's suits based upon the illegal license agreements.

The five facts of purge relied on by USG constituted a surrender of any serious claim to the need for taking evidence. USG's argument with respect to purge rests on the erroneous premise that the anti-trust violation found in this case was a narrow one and related only to price fixing; the fact is, as this Court found in its prior opinions, the anti-trust conspiracy found in this case had broad and pervasive effects on the entire industry.

USG has made no effort to show a dissipation of the effects of the anti-trust conspiracy, and termination alone, if it existed, does not constitute purge in a case like this.

None of the five facts of purge relied on by USG was sufficient to make out a termination of the illegal practices before the 1951 decree.

None of the cases cited by USG (USG Br. 56-60) is applicable to a case of monopolization and industry-wide restraint, such as has been made out in this case. Nor are they applicable to the situation here present, where USG seeks recovery upon the license agreements which this Court has held to be violative of the anti-trust laws and illegal, null and void.

A court of equity properly denies a wrongdoer recovery on an illegal contract.

In the absence of the introduction of facts by USG which would operate in law as purge, the District Court acted within the scope of its discretion in effectuating the basic purposes of the 1951 decree by its modification thereof barring USG from recovery on its misused patents.

Hartford-Empire Co. v. *United States,* 323 U. S. 386 (1945); 324 U. S. 570 (1945), supports the 1954 decree of the District Court. *Hartford-Empire* makes it clear that in a situation like that at bar relief against serious violation of the Sherman Act accomplished through misuse of patents can best be obtained through enjoining enforcement of the misused patents.

Hartford-Empire and the *Gypsum* cases were similar because of misuse of patents to accomplish an aggregation of restraints whose effect was to regulate and regiment an entire industry.

The *Hartford-Empire* remedy was properly granted by the District Court, because the restraints of trade found in the case at bar have been recognized as being of a much more serious nature and pervasive effect than those commonly revealed in patent misuse cases.

At the time of the formulation of the 1951 decree the only claims under misused patents which USG might make were under patent license agreements adjudged to be illegal, null and void by that decree; it was reasonable to believe, therefore, that no additional relief was necessary; USG did not, prior to the 1951 decree, assert any infringement claims against the corporate appellees.

USG, having asserted infringement and other claims against its competitors for the period prior to the entry of the 1951 decree, the District Court properly applied the rule of *Hartford-Empire* forbidding the enforcement of misused patents, where such patents have effectuated control of an entire industry.

V.

The District Court, contrary to USG's contention, did not hold that the mere bringing of an action to recover money for the use of patents constituted misuse; the Dis-

trict Court stated the basis for its holding of continued misuse to be the course of conduct of USG as clearly shown by the proceedings of record in the anti-trust case, and in the suits by USG in which the latter sought to recover directly and indirectly on the illegal license agreements up to the time of the District Court's opinion.

USG's contention that the District Court's decision as to misuse is in conflict with *Hartford-Empire,* Rule 8 of the Federal Rules of Civil Procedure and the provisions of 35 U. S. C. § 271(d) is premised on the claim that this Court had found only a narrow Sherman Act violation in this case. This contention is without merit and was rejected by this Court twice and by the District Court in formulating its 1951 and 1954 decrees.

The *Hartford-Empire* and *National Lead* teaching was considered applicable by this Court in ordering compulsory licensing in this case.

One of the fruits of the conspiracy, in which USG was the dominant factor, and which this Court directed should be forbidden, was the promise on the part of the defendant licensees to pay royalties for the protection given by price-fixing schemes. If USG was to be allowed to collect all the royalties claimed by it up to the time of the entry of the 1951 decree, it would obtain every benefit of the conspiracy.

This Court's disposition of the unique problem of earmarked royalties in its second *Hartford-Empire* opinion does not limit its broad holding in the first *Hartford-Empire* opinion that all defendants, including Hartford-Empire, were to be enjoined from bringing infringement claims under misused patents for the period prior to the entry of the final decree. *Hartford-Empire* fully supports the District Court's action in enjoining USG from enforcing its infringement counts. It constitutes no precedent for USG's suits.

A *quantum meruit* claim will not lie for the use of a patent. The *quantum meruit* counts of USG are also barred because of the precept of *pari delicto*.

Counts I and II of USG's suits are based on the illegal license agreements and violate the 1951 decree, and the so-called alternative counts are simply an indirect way to recover that which the final decree purposed to prevent. The District Court by its ruling did not penalize USG for pleading alternate and inconsistent claims but properly read USG's complaint as establishing that USG was attempting to recover the royalties claimed to be due to it under the illegal license agreements or the money equivalent thereof.

Section 271(d) only establishes that a patentee otherwise entitled to relief is not guilty of misuse by simply enforcing patent rights against infringement or contributory infringement. USG's infringement claim constituted only one of five or six counts; it added to its infrigement claim claims under the illegal license agreements.

A suit on a license agreement is not an enforcement of a patent right within the meaning of Section 271(d). Section 271(d) was enacted to establish the right of a patentee to sue for contributory infringement; it does not authorize the filing of a suit on license agreements adjudicated illegal because of the patentee's misuse of his patent. Section 271(d) can have no application where, as here, there has been a misuse of patents adjudged to be violative of the anti-trust laws.

The Government has not implicitly acknowledged USG's right to seek recovery in the suits filed by it on the so-called alternative counts. The Government invoked the jurisdiction of the District Court to enjoin USG from prosecuting its suits because they were based in whole or in part upon the illegal license agreements and were, there-

fore, barred by and constituted an attempt to defeat the 1951 decree; the Government further contended that the District Court which entered the 1951 decree was alone empowered to determine what further orders should be issued by way of implementation or modification of its judgment.

The Government throughout the history of this case has constantly sought to establish a broad violation of the antitrust laws through use of patent license agreements by USG as the principal dominant concern in the gypsum industry; it has taken two appeals to this Court, resulting in the enlarged and broadened 1951 decree; when USG's suits were filed the Government filed a petition in the District Court praying that USG be enjoined from asserting any claim or maintaining any action based in whole or in part on any of the illegal license agreements or any provisions thereof; it urged that the District Court had jurisdiction to enjoin USG's suits under Article X of the 1951 decree and under its inherent equity powers. The Government owes a duty to this Court to clearly state what its views are regarding USG's right to recover on the so-called alternative counts, and this Court should require the Government to make an affirmative statement as to its position on this point.

ARGUMENT.

I.

THE DISTRICT COURT HAD JURISDICTION TO ENTERTAIN AND DETERMINE THE ISSUES PRESENTED BY CERTAIN-TEED AND ALL OTHER PETITIONERS.

On the facts disclosed by the foregoing Statement of the Case we submit that on the threshold question of jurisdiction the District Court properly ruled that it had jurisdiction to entertain and determine the issues presented by the petitions of Certain-teed and all other appellees, including the Government.

The same argument made by USG in its brief (USG Br. 26-35) and the same cases cited and relied on by it to support that argument were carefully and thoroughly considered by the District Court. The District Court held that the USG contentions were not sound and the authorities relied upon by it were not applicable to the case at bar. In its opinion (R. 979-987) the District Court correctly ruled that it had jurisdiction to entertain and determine the issues presented by the petitions of all appellees because of the express provisions of Article X, because of the inherent power of a court of equity to compel obedience to its decrees, because of multiplicity of actions and because of the underlying and basic purposes of the May 15, 1951 decree. The authorities relied upon by the District Court clearly support the conclusions reached in its opinion.[6]

6. The basis of Judge Coles' dissent was that the Government was "the sole spokesmen for the public interest" (R. 1016). Implicit in Judge Coles' dissent was the view that the District Court would have had jurisdiction had the Government filed a petition seeking to enforce the so-called alternative counts (R. 1015-1018).

Certain-teed believes that there is little to be gained by repeating in this brief the matters so ably stated by the District Court. We submit that under the doctrine announced in *Missouri-Kansas Pipeline Co.* v. *United States, et al.*, 312 U. S. 502 (1941); *Local Loan Co.* v. *Hunt*, 292 U. S. 234 (1934), and *Terminal Railroad Association of St. Louis* v. *United States, et al.*, 266 U. S. 17 (1924), the ruling of the District Court on the threshold question of jurisdiction was eminently sound and correct.

As the District Court pointed out (R. 980-981), the cases cited by USG in the District Court, and upon which USG relies in its brief in this Court (USG Br. 29-35) are distinguishable as they involved not parties to the original decree but persons seeking the right to intervene. Typical of these cases is *Buckeye Co.* v. *Hocking Valley Co.*, 269 U. S. 42 (1925) (USG Br. 30). In some of them (*e. g.*, *United States* v. *Bendix Home Appliances*, 10 F. R. D. 73 (S. D. N. Y., 1949); *United States* v. *Northern Securities Co.*, 128 Fed. 808 (S. D. Minn., 1904)), the Government opposed the intervention. In this case, of course, Certain-teed and the other corporate appellees are parties to the 1951 decree and there is no opposition by the Government to any part of Certain-teed's petition or to the petitions of the other corporate appellees. As shall be pointed out in more detail hereafter, the Government actually sought to enforce the 1951 decree in the manner sought by Certain-teed and the other corporate petitioners.

Returning to the cases relied on by USG in its brief in this Court, it cites *United States* v. *International Harvester Co.*, 274 U. S. 693 (1927) (USG Br. 29, 63), in support of its argument that Article X does not reserve jurisdiction to modify the decree as was done by the District Court in its 1954 decree. We submit that the *International Harvester* case has no application to the case

at bar, because the decree in that case contained an explicit reservation of the power invoked by the Government. The modification sought was denied, because the Court found that the basic purposes of the decree had been achieved and, therefore, that amendment was neither necessary nor appropriate. The ruling of the Supreme Court went to the merits, not to the power.

United States v. *Columbia Gas & Electric Corp.*, 27 F. Supp. 116 (D. Del., 1939), (USG Br. 31-32), was a decision rendered at an earlier stage of the same litigation as that involved in *Missouri-Kansas Pipeline Co.* v. *United States, supra*, and as to the question here involved, was overruled by this Court in its opinion in the *Missouri-Kansas* case.

Nothing in *Aluminum Company* v. *United States*, 302 U. S. 230 (1937); *Harriman* v. *Northern Securities Co.*, 197 U. S. 244 (1905), or *Standard Oil Co.* v. *Clark*, 163 F. 2d 917 (C. A. 2d 1947), cert. denied, 333 U. S. 873, cited by USG as *Standard Oil Company* v. *Markham*, 64 F. Supp. 656 (S. D. N. Y., 1945) (USG Br. 34-35), casts any doubt on the power of the District Court to grant the relief sought by Certainteed. In none of those cases was the power to implement a prior decree in question; those cases involved, at most, the propriety of exercising that undoubted power. And, in each, the circumstances were of a wholly different sort from those in the case at bar.

Thus, the *Aluminum Company* decision rested on the District Court's finding in that case (302 U. S. 232) that

> "'The subject matter, parties, issues and relief sought in the New York suit differ substantially from those in the 1912 suit. The New York suit does not attack the affirmative provisions of the 1912 decree or seek to reverse any action taken by the District Court for the Western District of Pennsylvania in the suit in 1912. The New York suit does not subject Aluminum Company to the peril of two conflicting

> decrees. Aluminum Company will not suffer irreparable injury by being compelled to defend the suit in the Southern District of New York * * *' The district court concluded that the two suits were dissimilar in respect of parties defendant, subject matter, issues and relief sought, and that no basis for an injunction has been shown."

In *Harriman* v. *Northern Securities Company, supra,* the Supreme Court simply ruled, on the merits, that the action complained was not in conflict, but consistent with the prior decree. No question was there raised whether, and under what circumstances, one federal court should undertake to construe the decree of another.

It is implicit in USG's argument, under Point I of its brief, as elsewhere, that the Government did not seek to invoke the jurisdiction of the District Court. At page 30 of its brief, USG says:

> "It is clear that only the Government is entitled to seek to enforce an anti-trust decree in the manner sought by the corporate appellees."

This position is untenable because an examination of the Government's petition (R. 739) and the argument made in support thereof (R. 877) makes it crystal clear that the Government joined with the corporate appellees in requesting that the District Court enjoin the suits filed by USG. The Government's petition prayed (R. 740-741):

> "I. That this Court enjoin USG from asserting any claim, and from instituting, threatening to institute, or maintaining any action, based, in whole or in part on any of the license agreements adjudged illegal, null and void by the final decree of this Court entered on May 15, 1951, or on any provision thereof.
>
> "II. That your petitioner have such other and further relief as to this Court may seem just and proper."

It is beyond doubt, despite the belated attempt of USG to indicate the contrary, that Counts I and II of USG's complaint were based on the license agreements which the 1951 decree decreed to be illegal, null and void. Obviously, therefore, the Government's petition sought the same relief as Certain-teed and the other corporate appellees, since its prayer and the argument in support thereof asked the District Court to enjoin any suit which was based "in whole or in part" on said license agreements. The question of jurisdiction is not affected by the unwillingness of the Government to take a position as to the other counts of USG's complaints.

With reference to multiplicity of actions as a ground for jurisdiction, the District Court properly held that the prevention thereof is a long-established basis of equity jurisdiction, and that such jurisdiction was present in this case. USG contends that the factual situation usually found, where jurisdiction is taken to avoid multiplicity of suits, is not here at present (USG Br. 33-35). In connection with this argument, USG cites cases which have hereinbefore been distinguished (see pp. 34-35). USG also points to the facts that the suits against Newark and Ebsary have been settled and dismissed. Appellant can hardly use a settlement to which appellees were not parties, and which was made long after the decree was entered, to aid its position on the question of multiplicity. There can be no doubt but that the question of multiplicity must be considered on the basis of the situation which the District Court had before it when it entered its 1954 decree.

We therefore submit that the District Court correctly ruled that it had jurisdiction to entertain and determine the issues presented by all the petitioners.

II.

THE DISTRICT COURT HAD THE POWER TO IMPLEMENT THE 1951 FINAL DECREE AND TO MODIFY THAT DECREE IN ORDER TO ACCOMPLISH SUCH IMPLEMENTATION.

The District Court had the power to prevent violation of the decree entered by it and to enforce compliance therewith, and had the power to implement its decree and to modify it in order to effectuate its basic purpose.

The Court which enters the decree has the power to protect its decree from defeat, circumvention, impairment or frustration. In *Kessler* v. *Eldred,* 206 U. S. 285, 289 (1907), this Court said:

> "If rights between litigants are once established by the final judgment of a court of competent jurisdiction, those rights must be recognized in every way, and wherever the judgment is entitled to respect, by those who are bound by it."

As heretofore pointed out, the decree entered in the anti-trust action rendered illegal, null and void the license agreements between USG and Certain-teed, and between USG and other corporate appellees. To allow USG to proceed with its action in the District Court of Iowa, and other actions filed by it in said District Court of Iowa and the District Courts of New York and New Jersey, would be to interfere with and in effect nullify the decree of the District Court. In *Holmes* v. *Rowe,* 97 F. 2d 537, 539 (C. A. 9th, 1938), the court said:

> "A review of the decisions discloses that a Federal District Court, once having obtained jurisdiction of a controversy, and having rendered a decision in the matter, has complete power to protect the judgment or decree which it has rendered, and may go so far as to enjoin an action entertained in the State court by

> a litigant, involving the same subject matter, when such action may in any way interfere with or nullify the effect of such judicial determination."

See also *Toledo Scale Co.* v. *Computing Scale Co.*, 261 U. S. 399, 426 (1923); *Kerotest Manufacturing Co.* v. *C-O-Two Fire Equipment Co.*, 342 U. S. 180, 183-184 (1952); *Crosley Corporation* v. *Hazeltine Corporation*, 122 F. 2d 925 (C. A. 3rd, 1941), cert. den. 315 U. S. 813; *Guaranty Trust Co.* v. *Broadway & Seventh Avenue R. Co.*, 43 F. 2d 130 (S. D. N. Y., 1930); *Swift* v. *Black Panther Oil & Gas Co.*, 244 F. 20, 27-29 (C. A. 8th, 1917).

As the Court of Appeals for the District of Columbia Circuit pointed out in *Land* v. *Dollar*, 190 F. 2d 366, 373 (C. A. D. C., 1951), cert. dismissed by agreement 344 U. S. 806:

> "• • • to declare that one court can nullify the final decrees of another court which had jurisdiction • • • would mean chaos and the complete collapse of every semblance of orderly judicious process, a consummation to the irreparable damage of public interest."

The District Court had full power to protect and compel obedience to the declaratory provisions of its decree, such as those adjudicating the license agreements illegal, null and void. This Court in *Dugas* v. *American Surety Co.*, 300 U. S. 414, 427 (1937), approved an implementing injunction to compel obedience to the purpose and spirit of prior decrees, and said:

> "• • • the injunction, being only one part of the decrees, is not the exclusive criterion of what was determined and effected by them. It purpose was to forestall anticipated departures, not to limit other provisions or restrict their operation and effect."

The decision of this Court in *Local Loan Co.* v. *Hunt, supra,* makes clear that the District Court had the power to grant the relief sought by Certain-teed in order to protect this Court's decree. In that case this Court, after holding that bankruptcy courts are essentially courts of equity and for proceedings, or inherent proceedings in equity, said (pp. 239-240):

> "That a Federal Court of equity has jurisdiction of a bill ancillary to an original case or proceedings in the same court, whether at law or in equity, to secure or preserve the fruits and advantages of a judgment or decree rendered therein, is well settled * * *
>
> "These principles apply to proceedings in bankruptcy (citing cases). Petitioner relies upon a number of decisions where other Federal Courts sitting in bankruptcy have declined to entertain suits similar in character to the present one, on the ground that the effect of a discharge in bankruptcy is a matter to be determined by any court in which the discharge may be pleaded * * * (citing cases). To the extent that these cases conflict with the view just expressed, they are clearly not in harmony with the general rule in equity announced by this court. * * * courts of bankruptcy are essentially courts of equity, and their proceedings inherently proceedings in equity."

We submit that the District Court, as a court of equity, under the authorities above cited, had the power to support and implement the declaration of status contained in its 1951 decree by enjoining, as it did, the prosecution of the actions which were inconsistent with such declaration.

Assuming, for present purposes, that the District Court's 1951 decree does not bar USG from prosecuting all the claims it has made against Certain-teed in the District Court of Iowa, that decree was properly implemented

through modification so as to specifically enjoin enforcement of USG's misused patents for the period prior to May 15, 1951, through the vehicle of its suits in the District Court of Iowa and in the District Courts of New Jersey and New York. In *United States* v. *Swift & Co.*, 286 U. S. 106, 114 (1932), the Supreme Court held that the power to modify an anti-trust decree was inherent in a court of equity. The court said:

> "Power to modify the decree was reserved by its very terms • • •. If the reservation had been omitted, power there still would be by force of principles inherent in the jurisdiction of the chancery."

The District Court, in Article X of its final decree, expressly reserved jurisdiction to deal with matters such as were raised in Certain-teed's petition. The test of whether an anti-trust decree was properly modified was stated in *Chrysler Corporation* v. *United States*, 316 U. S. 556, 562 (1942), as follows:

> "the test to be applied • • • is whether the change served to effectuate or to thwart the basic purpose of the original consent decree." (Citing *United States* v. *Swift & Co., supra.*)

The test was also stated in *Armstrong* v. *DeForest Radio-Telephone & Telegraph Co.*, 10 F. 2d 727, 728 (C. A. 2d, 1926), cert. den. 270 U. S. 663, where the Court of Appeals said:

> "• • • the object (of a supplemental injunction) is not to amplify, but to *specify* and apply the original injunction to actions and objects non-existent when the case was decided. The inquiry is whether acts and things that have come into existence since decree would have been enjoined by that decree, had they then existed."

See also in this connection *S. C. Johnson & Son* v. *Johnson*, 175 F. 2d 176, 177 (C. A. 2d, 1949), cert. den. 338 U. S. 860

citing *United States* v. *Swift & Co., supra,* and *Dugas* v. *American Surety Co., supra.*

This Court ruled in the anti-trust suit of *Hughes* v. *United States,* 342 U. S. 353 (1952), in a manner which completely sustains the District Court's power to implement and modify its decree as it did by the 1954 decree. Among other contentions made by the Government in that case was the contention that the decree in a prior anti-trust suit should be modified to require Hughes to sell his stock in one of the companies involved. The Government's argument was that the court had power to and could appropriately modify the decree in order to effectuate the basic purpose of the decree. With respect to this argument, the court said, page 357:

> "The Government finds support for the substantial change in the decree by reference to (1) provisions in the decree reserving jurisdiction to amend, and (2) the inherent equity powers of the court. We entertain no doubt concerning the District Court's power to require sale of Hughes' stock after a proper hearing."

USG cites and relies upon the *Hughes* case (USG Br. 63-64) as authority for the proposition that a court may not add new substantive provisions which were omitted and withheld in the first place. The quotation from this Court's opinion relied on by USG only went to one of two grounds urged by the Government, *i. e.*, provisions in the decree reserving jurisdiction to amend. On the other ground urged by the Government, *i. e.*, the inherent equity powers of the court, this Court held that it "entertained no doubt" concerning the District Court's power after hearing to modify the decree.

Terminal Railroad Association v. *United States, supra,* is also cited by USG (USG Br. 64) as support for the foregoing proposition. However, the facts of that case

are totally different as there this Court found on the merits that there must be a plain violation of the decree when read in the light of the issues and the purpose for which the suit was brought. We submit that in this case USG's suits to recover royalties under the illegal license agreements is a plain violation of the 1951 decree. That decree was entered in compliance with this Court's direction to "cure the ill effects of the illegal conduct" and to deny the conspirators, of whom USG was the dominant concern, the "future benefits from their forbidden conduct" (340 U. S. 88, 89).

It may be true as urged by appellant (USG Br. 65) that there is no provision in the 1951 decree that prohibits USG from suing to recover for actual use of its patents, but this is beside the question whether the basic purpose of that decree was to deny USG from securing the benefits from the tainted patents and illegal agreements licensing such patents. Conversely it is equally clear that the 1951 decree granted no right to USG to sue for the use of said patents for the pre-decree period, although no payment had been made for such use.

The power to modify, announced by the foregoing cases is the power for which Certain-teed contended in the District Court, and which was upheld by that Court, *i. e.*, the power to implement and modify a decree in order to effectuate its basic purposes. At the time of the entry of the final decree of May 15, 1951, no suit to recover royalties under the license agreements, or upon the theory of *quantum meruit*, or for infringement, had been filed by USG and no threat of such suits had been made. Since the entry of that decree, however, USG has taken affirmative action by instituting such suits. Applying the test adopted by the Courts where a modification of the decree is sought in order to effectuate

its basic purpose, we submit that such test is completely applicable to the situation here presented, because the filing of USG's suit against Certain-teed and others, was an attempt to thwart, circumvent and defeat the basic purpose of the original decree of this Court.

The decisions of this Court in the *Gypsum* cases, 333 U. S. 364 and 340 U. S. 76, make it clear that one of the basic purposes of the decree which this Court in its later decision directed the District Court to enter in this case, was to "cure the ill effects of the illegal conduct and assure the public freedom from its continuance" (340 U. S. at pp. 88-90).

The District Court has admirably summarized the basic purposes of the 1951 decree (R. 1002-1006) and properly concluded that its modification of the 1951 decree was required to effectuate those purposes.

The Basic Purposes of the 1951 Decree Were Effectuated by the 1954 Decree.

Throughout its brief (USG Br., 27, 39-40, 69-74), USG contends that it was no part of the basic purposes of the 1951 decree to punish USG by confiscating its patents, or to reward the licensee-appellees by giving them free use of valuable patent rights of USG. This argument is one which USG has repeatedly and unsuccessfully made throughout this case, and is based on its claim that the anti-trust violation was a narrow one and that the final decree was entered only to enjoin price-fixing through concerted action (*e. g.*, USG Br., 42-43). This argument is erroneous because the premise upon which it is based is erroneous. As clearly shown by the facts stated in our Statement of the Case (pp. 5-8, 11-14) and in the opinion of the District Court (R. 1002-1006), the basic purpose of

the decree was much broader. Examination of these facts and this Court's second opinion (340 U. S. 76) makes it abundantly clear that the basic purposes of the 1951 decree were sufficiently broad to authorize the District Court to modify the 1951 decree by directing USG to discontinue and to dismiss with prejudice its pending actions against the corporate appellees.

In this connection, we believe it is relevant to point out that this Court found that USG was the dominant concern in the industry (333 U. S. at 368); that through the device of patent license agreements, USG maintained rigid and complete control over the price and terms of sale of virtually all gypsum board (333 U. S. at 371). We also call the Court's attention to the following:

a. The violation was not a narrow one, but consisted of (i) monopolization and (ii) action "* * * in concert to restrain commerce in an entire industry under patent licenses in order to *organize the industry and stabilize prices.*" (340 U. S. 84.) (Emphasis added.)

b. The facts relevant to the problem of relief are not only the price-fixing provisions of the unlawful licenses but also (i) the unlawful licenses in their entirety, (ii) the effects of those licenses on the industry and (iii) all other steps taken by the defendants to regulate and, indeed, monopolize the industry. Into the last-mentioned class of facts falls the elimination of jobbers, the suppression of the manufacture of unpatented board, the concerted use of delivered pricing systems, etc.

c. The violations in this case were at least "as offensive" to the prohibitions of the Sherman Act (340 U. S. at 93), as those in *United States* v. *National Lead Co., supra.*

d. Among the basic purposes of the final decree in this case and the standards governing the relief to be granted, are, as stated by this Court, the following:

1. "to compel action by the conspirators that will, so far as practicable, cure the ill effects of the illegal conduct and insure the public freedom from its continuance. Such action is not limited to prohibition of the proven means by which the evil was accomplished but may range broadly through practices connected with acts actually found to be illegal." (340 U. S. at 88-89).

2. "The conspirators should, as far as practicable, be denied future benefits from their forbidden conduct." (340 U. S. at 89).

3. "• • • courts should give weight to the fact of conviction as well as the circumstances under which the illegal acts occur." (340 U. S. at 89.)

As will hereinafter be further discussed, an implementation or modification of the decree which specifically enjoins USG from enforcing its misused patents for the period prior to the entry of the 1951 decree is an implementation of its basic purposes. *Morton Salt Co.* v. *Suppiger*, 314 U. S. 488 (1942); *Hartford-Empire Co.* v. *United States, supra; United States* v. *National Lead Co., supra.*

If the test is stated in the terms used by the Court of Appeals for the Second Circuit in *Armstrong* v. *DeForest Radio-Telephone & Telegraph Co., supra,* "whether acts and things which have come into existence since decree would have been enjoined by that decree had they then existed," the relief sought by Certain-teed was equally within the power of the District Court to grant. It is clear we submit that if USG, before May 15, 1951, had made claim for royalties, or for compensation the use of, or infringement damages arising out of the use of its misused patents, the decree of May 15, 1951, would properly have enjoined such claims and actions.

III.

The 1954 Decree Was a Proper Modification to Prevent USG's Violation of the 1951 Decree Through Suits on the Illegal License Agreements.

The District Court, by its modification of the 1951 decree, granted a form of relief derived largely from the decision in *Morton Salt Co.* v. *Suppiger, supra,* in which this Court ruled that the courts should deny their aid to patentees who have misused their patents. The *Morton Salt* rule means that patentees to whom the rule is applicable are denied compensation for the use of their patents. It was applied by this Court to anti-trust defendants in *Hartford-Empire Co.* v. *United States, supra,* and *National Lead, supra,* among others, and it was applied in this case by the District Court.

As pointed out in our Statement of the Case (p. 4), the Government, pursuant to leave of the District Court, on March 12, 1943, amended the prayer of its complaint to include a prayer that the defendant should be enjoined from attempting by suit or otherwise to collect royalties or license fees for the use of patents owned by the defendant until it was made to appear to the Court that all improper practices had been abandoned and the consequences of all misuse of patents had been dissipated. This prayer was never withdrawn, but when the 1951 decree was prepared and entered there was no apparent need for a specific injunction against infringement or other action.[7] The only

7. In its Brief filed in the District Court the Government said (R. 814) (pp. 8-9):

> "The proposed substitute for Article V (of the November 7, 1949 decree) did not include a clause enjoining further enforcement of defendants' license agreements. Since Article IV of the judgment (the 1951 decree) voided these agreements and since an agreement which has been adjudged null and

claim USG had indicated it might make was for royalties under the illegal license agreements. Therefore, the matter of royalties was squarely covered by Article IV of the 1951 decree adjudicating those agreements under which royalties might be claimed "unlawful under the anti-trust laws of the United States and illegal, null and void". As is clear from the actions of the proponents of the Article IV provision and USG in opposition, it was recognized that the Article IV provision reached beyond a ban on the enforcement of the license agreements themselves and applied as well to all enforcement of the underlying patents for the pre-decree period. USG resisted the "illegal, null and void" provision of Article IV because it realized that such a provision would preclude any recovery by USG of compensation for use of its patents for a period prior to the final decree.

Although USG makes much of the statement of counsel for Celotex (not a party to these proceedings) (USG Br. 68), it is a fact that USG *after*, not *before* Mr. Dallstream's statement, made reference to its (USG's) conviction that the proposal was being made in an attempt to relieve the defendants (appellees) from accounting for anything done either before or after the Supreme Court's decision of

---

void cannot be enforced (*Continental Wallpaper Co.* v. *Voight & Sons Co.*, 212 U. S. 227, 260-264), it was the view of the Government that an injunction against enforcement was a pointless reaffirmation of the effect of Article IV. Omission of this injunctive clause also served to emphasize the Government's contention that the prohibitions of the judgment should not be directed solely to barring continuation of the precise licensing scheme which the defendants had used as a means for restraining and monopolizing trade. The Government's position is shown by the following excerpt from Government counsel's oral argument before the Supreme Court:

> " 'As I have said, the judgment declares these (license agreements) illegal, null and void. To enjoin carrying them out is to paint the lily, but accomplishes nothing by way of barring further violation of the Act.' "

March 8, 1948 (R. 437, 440, 444). USG recognized that Mr. Dallstream's statement did not bind anybody, including Mr. Dallstream's client, because in its reply memorandum of July 25, 1949, it said specifically with reference to the proposed decree suggested by Mr. Dallstream:

> "The defendant licensees can have no purpose in making the suggestion that each patent license be adjudged illegal, except to obtain some advantage with respect to the use of the patents. They apparently believe it will relieve them from accounting for anything done either before or after the Supreme Court's decision." (R. 437)[8]

After considering the foregoing matters the District Court declared the patent licenses "illegal, null and void" in their entirety and did not, as proposed by USG, declare illegal only the minimum price provision of the patent licenses.

This adjudication, on its face and particularly when read in the light of the Supreme Court's decision in *Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394 (1947), and *MacGregor* v. *Westinghouse Electric & Mfg. Co.*, 329 U. S. 402 (1947), was a determination of USG's lack of right to enforce the royalty provision in the patent licenses. The *Katzinger* and *MacGregor* cases did not depend on the invalidity of the patents involved. In those cases the question

8. The District Court did not find that Mr. Dallstream's assurances bound Certain-teed. Its statement that Mr. Dallstream had disavowed apprehensions of USG (that Article IV of the 1951 decree was intended to avoid an accounting) on behalf of Celotex, and Certain-teed was no determination of an issue. Further it is submitted that counsel for Certain-teed merely deferred to Mr. Dallstream as to "the exact changes we desire to make in both decrees (USG's and the Government's) but indicated no agreement with Mr. Dallstream's statement (R. 364, 992). When Mr. Dallstream spoke he said: "as far as *my client is concerned* we are willing to let the royalty rate * * * apply back to the time when we ceased paying royalties". (Emphasis added.)

of patent validity was relevant only because if the patent was invalid the price fixing provision violated the federal anti-trust laws. In the case at bar the license agreements concededly violated the anti-trust laws even if the underlying patent is valid.

This Court held in *Katzinger* and *MacGregor* (329 U. S., at page 401) that:

> "Metallic's obligation to pay royalties and its agreement to sell at prices fixed by Katzinger constituted an integrated consideration for the license grant. Consequently, when one part of the consideration is unenforceable because in violation of law, its integrated companion must go with it. * * *
>
> "The royalties here claimed accrued, if they accrued at all, prior to the time the license agreement terminated. Consequently, the fact of subsequent termination does not free the promise to pay royalties from the taint of the price-fixing provision."

It is difficult to envisage language which could bear more directly on the case at bar.

The District Court's decision to modify the final decree of May 15, 1951, was made only after extensive argument and briefing. Exercise of its power to modify was clearly designed to effectuate the basic purposes of the original decree, which, as this Court stated, were, among others,

> "so far as applicable, (to) cure or allay effects of the illegal conduct and assure the public freedom from its continuance * * *. The conspirators should so far as practicable be denied future benefits from their forbidden conduct." (340 U. S., at pages 88-89.)

Modification of the decree specifically enjoining USG from enforcing its misused patents against appellees for the period prior to the entry of the final decree did no more than apply and implement that purpose. *Morton*

Salt Co. v. *Suppiger, supra; Westinghouse Electric Corp.* v. *Bulldog Electric Products Co.*, 179 F. 2d 139 (C. A. 4th, 1950); *McCullough* v. *Kammerer Corp.*, 166 F. 2d 759 (C. A. 9th, 1948) cert. den. 335 U. S. 813; *National Lockwasher Co.* v. *George K. Garrett Co.*, 137 F. 2d 255 (C. A. 3rd, 1943).

The modification merely made explicit that which necessarily must be implied, if Article IV of the 1951 decree was to have any purpose or effect. The modification also served to prevent USG's attempt to subvert the decree both directly through count on the illegal agreements and elsewhere as the District Court found through "a left-handed, indirect method" (R. 1009).

Even greater reason attaches for honoring the discretion of the trial court in modification of a litigated decree than in the "molding" of the initial decree, which this Court has called "this most significant phase of the case," *United States* v. *United States Gypsum Co.*, 340 U. S. 78, 89. Inappropriate provisions in the initial decree may defeat the great objective of the anti-trust litigation "to restore future freedom of trade" (*id.*). A modification of the decree designated to "effectuate" rather than "to thwart the basic purpose" of the original decree (see *Chrysler Corp.* v. *United States, supra*) is an action which cannot defeat the public interest in the litigation, and as to its need the trial court with intimate knowledge of the record has particular competence. The lower Court did no more than mold its decree to accommodate a change in circumstances.

As this Court recently said, "necessarily an ample degree of discretion appropriate for disciplined and experienced judges must be left to the lower Courts." *Kerotest Manufacturing Co.* v. *C-O-Two Fire Equipment Co., supra.*

IV.

THE DISTRICT COURT CORRECTLY RULED ON THE RECORD IN THIS CASE THAT AS A MATTER OF LAW USG CONTINUED TO MISUSE ITS PATENTS UNTIL ENTRY OF THE 1954 DECREE.

By the opinions of this Court, USG was found to have misused its patents, to, among other things, fix and maintain prices, suppress competition of unpatented products, boycott jobbers, and monopolize an industry through price control. The doctrine announced by this Court in *Morton Salt Co.* v. *Suppiger, supra,* and *B. B. Chemical Co.* v. *Ellis,* 314 U. S. 495 (1942), is completely applicable to the foregoing patent misuses committed by USG. In *Morton Salt Co.* v. *Suppiger, supra,* this Court said (p. 493):

> "Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement, and should do so until at least it is made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated."

In *B. B. Chemical Co.* v. *Ellis, supra,* this Court said (p. 498):

> "• • • petitioner suggests that it is entitled to relief because it is now willing to give unconditional licenses to manufacturers on a royalty basis, which it offers to do. It will be appropriate to consider petitioner's right to relief when it is able to show that it has fully abandoned its present method of restraining competition in the sale of unpatented articles and that the consequences of that practice have been fully dissi-

9. The doctrine announced in the foregoing cases has been applied to various types of improper extension of the patent monopoly; use of the patent monopoly to suppress competition of goods not covered by the patent—*National Lockwasher Co.* v. *George K. Garrett Co., supra; McCullough* v. *Kammerer Corp.*,

In *United States* v. *Vehicular Parking, Ltd.*, 56 F. Supp. 297 D. Del., 1944), 61 F. Supp. 656 (D. Del., 1945), the court stated the rule as to what constituted purge, saying (56 F. Supp. at 298):

> "But defendants' self-purging does not result from their mere declarations that they will carry the decree into effect. Examination in these cases consists of a change in the method of doing business. When and if defendants are able to show a course of conduct which is free from the present taint of illegality, then consideration will be given * * * to delete [the injunction against enforcing their patent rights]."

A year later the defendants applied to the court for elimination of this injunction. But the court again rejected the application saying (61 F. Supp. at 658):

> "The findings which have been made in the case at bar manifestly support the charge of misuse of patent. Under these circumstances, I have already held that (see 56 F. Supp. 297, 298) when defendants are able to show a course of conduct which will be free from past taints of illegality, fresh consideration will be given to the elimination of paragraph 10 of the present decree. A year has passed. There has been no disclosure or report (either to this Court or the Department of Justice) of the defendants' present or future methods of doing business or the manner in which they

---

supra; Park-In Theatres v. *Paramount-Richards Theatres*, 81 F. Supp. 466 (D. Del., 1948) 90 F. Supp. 730 (D. Del., 1950), aff'd 185 F. 2d 407 (C. A. 3rd, 1950), cert. den. 341 U. S. 950; use of the patent monopoly to fix prices—*Westinghouse Electric Corp.* v. *Bulldog Electric Products Co., supra; Metals Disintegrating Co.* v. *Reynolds Metals Co.*, 107 F. Supp. 105 (D. Del., 1952), aff'd 228 F. 2d 885 (C. A. 3rd 1956); *Newburgh Moire Co.* v. *Superior Moire Co.*, 105 F. Supp. 372 (D. N. J., 1952). (In the last cited case, the District Court relied on this Court's opinion in the *Gypsum* case to sustain its conclusion that the *Morton Salt* doctrine applied); use of the patent monopoly to drive out jobbers—*Urquhart* v. *United States*, 109 F. Supp. 409 (Ct. of Claims 1953); *National Foam System, Inc.* v. *Urquhart*, 202 F. 2d 659 (C. A. 3d, 1953).

> are utilizing their parking meter patent rights. It is now concluded that an additional passage of time must occur for it to appear that defendants have exculpated themselves from their former violations of the anti-trust laws. Such report may come in the future; but until then the specific sanctions imposed by paragraph 10 must stand."

It is clear from the record in this case that during the period from this Court's first opinion to the entry of the District Court's decree on May 15, 1951, and beyond, as evidenced by the suits on the illegal license agreements, there has been no purge by USG of its misuse of its patents.

USG opposed the entry of the decree entered November 7, 1949. It took an appeal therefrom on the ground that its license agreements with its licensees was proper and valid. In the order of this Court dismissing USG's appeal, this position was recognized and this Court, among other things, enjoined USG from enforcing in any manner whatsoever the provisions of their "current license agreements." Prior to the entry of the decree of May 15, 1951, USG made no attempt to apply for and secure a determination of the District Court that it had terminated the misuse of its patents and that the evil consequences thereof had been dissipated. No showing was made by USG that it had abandoned any of the restrictions of its license agreements. On the contrary it maintained in its appeal from the District Court's decree of November 7, 1949 that its license agreements were valid. The final and compelling evidence that USG is still relying upon its license agreements, is contained in Counts I and II of the complaint filed by it in the Iowa District Court against Certain-teed and in similar counts in the complaints filed by it in other District Courts against other licensees, in which recovery is sought upon the license agreements which

this Court twice, and the District Court in its decree of May 15, 1951, held to be illegal, null and void. We submit that by reason of the foregoing, it is manifest that as a matter of law USG misused its patents and did not purge such misuse.

With regard to the right of USG to recover under Counts I and II of its complaint in the Iowa District Court, it is clear that the doctrine of misuse announced in the *Morton Salt* case and others, bars any suit on the unlawful license agreements and the question of purge is not involved.

In *Park-In Theatres* v. *Paramount-Richards Theatres,* 90 F. Supp. 730 (D. Del., 1950), the Court held that in a suit for royalties under a license agreement containing an illegal provision, the defense of misuse could not be defeated by a showing of purge. The court said (90 F. Supp., at 735):

> "It seems reasonably clear (the patentee) could only recover royalties under the agreement of November 20, 1940 for the period during which that agreement was in force, and that the agreement contained the condemned restrictive covenant so long as it was enforced. Recovery of royalties is, therefore, barred for the whole term of its existence by reason of its unenforceability."

Park-In Theatres v. *Paramount-Richards Theatres, supra,* is cited by USG as authority contrary to the District Court's ruling on continued misuse (USG Br. 47, 48). That case is not in point. Plaintiff in *Park-In Theatres* initially alleged two causes of action — one for an accounting for royalties under a patent license agreement and a second or alternative cause of action for patent infringement. Certain defendants moved to dismiss on the ground that the license agreement contained provisions in violation of public policy and was therefore un-

enforcible, and that as a further consequence the patent infringement action could not be maintained. Disposition of the motion to dismiss was deferred by the court for further facts. (81 F. Supp. 466.) A motion for summary judgment, based on the same contentions, was then filed. Plaintiff then filed an amended complaint and defendants renewed their motions for summary judgment and to dismiss with reference to the amended complaint. Based on the facts and affidavits before it, the district court held that the plaintiff's license agreement tended to restrain competition and was therefore violative of public policy. Accordingly, it granted the defendants' motion for summary judgment as to the first cause of action.

As to the cause of action for patent infringement (which appeared as the fourth cause of action in the amended complaint), the court held that the record before it created an issue of fact whether plaintiff had purged its misuse of its patent, and the court denied summary judgment on this cause of action.

In the *Park-In Theatres* case there was no prior adjudication that the license agreement in question was "illegal, null and void". In fact, in a prior action brought by Park-In Theatres against Loew's Drive-In Theatres, the very contract terms in question in the *Park-In Theatres* case were held lawful and not violative of the antitrust laws. 70 F. Supp. 880, 887 (D. C. R. I. 1947). Hence, in the *Park-In Theatres* case, the action was brought on a license agreement the terms of which had previously been adjudicated legal. Therefore, the mere bringing of a suit by Park-In Theatres could not be misuse as a matter of law. If, however, Park-In Theatres had subsequent to this decision sought in some manner to enforce its license agreements declared unenforcible in this decision, it would be in a position somewhat analogous to USG and upon those

facts might very well be considered to have continued its misuse by institution of suit on the illegal patent license agreement.

USG urges (USG Br. 48-52) that the questions of misuse and purge involve a factual inquiry and cannot be decided as a matter of law without a hearing on all pertinent facts at issue. This argument is similar to the argument which USG previously made to this Court in support of its claimed right to introduce evidence that it had not violated the anti-trust laws. This Court rejected that argument (339 U. S. 959, 340 U. S. 76), and should reject the argument now made in USG's brief that it has the right to introduce evidence on the question of misuse and purge.

The effective and complete answer to USG's argument and the cases cited in support thereof at pages 48-51 of its brief is that the District Court found USG guilty of patent misuse on the grounds determined by this Court, and adhered to by the District Court (R. 995, 996, 1006). Among other things, this Court had determined that through the device of patent license agreements, USG, the dominant concern in the gypsum industry, had fixed and maintained prices, suppressed competition of unpatented products, eliminated jobbers and monopolized an industry through price control. Upon such determination the District Court, in its 1951 decree, decreed the patent license agreements and any supplement or amendment thereto to be illegal, null and void. Despite such decree, USG sued directly upon said illegal, null and void license agreements. Under such circumstances there was no need for determination by the District Court whether USG's patent misuse, which resulted in the entry of said decree, continued, or whether USG had purged such misuse. It was evidence enough of such continued misuse

and absence of purge when USG filed its suits based upon the illegal license agreements. None of the cases cited by USG is applicable to the situation here presented, because in none of them was there such a flagrant flouting of a decree as is present in this case.

The District Court properly found that USG's patent misuse continued subsequent to May 15, 1951, because of USG's attempt to recover royalties on the illegal license agreements.

USG argues (USG Br. 52, *et seq.*) that it submitted to the District Court for illustrative purposes only, five facts of purge. USG though it had ample opportunity to do so, made no offer of proof relative to any other facts which might show purge or dissipation of the unlawful restraints found by this Court and the District Court in this case. USG relied on the facts of purge which it urged on the District Court and which it urges on this Court. The District Court said of USG's reservation (that such facts of purge were illustrative only) "in spite of this cautionary reservation, we must conclude that USG is presenting here those matters which it regards as most potent in showing a purge" (R. 1012). The failure of appellant to specify as evidence of purge, matters other than those of record which it asserted operated as a purge in law, constituted a surrender of any serious claim to the need for taking of evidence.

Like all of USG's contentions, its argument with respect to the purge issue rests on the erroneous premise as to the scope and effect of the anti-trust violation found in this case. It is USG's assumption throughout its brief, that the only effect of the illegal price fixing was the fixing of prices; that as soon as price fixing ended the misuse was purged.

The fact is, however, that the antitrust conspiracy

found in this case had broad and pervasive effects on the entire industry. What was found was that (340 U. S. at 84):

> "'the defendants, constituting all former competitors in an entire industry, had acted in concert to restrain commerce in an entire industry under patent licenses in order to organize the industry and stabilize prices'."

This concert of action, this Court found, resulted not only in fixing prices, but in adding "to the cost of producing unpatented board" (340 U. S. at 86), "standardization of trade practices" (340 U. S. at 91), and "regulating sales * * * by special provision for certain classes of customers, jobbers and manufacturing distributors" (*ibid.*)

It is clear that the comprehensive, industry-wide effects of the conspiracy in restraint of trade could not be dissipated overnight, by the mere termination of price-fixing. Unpatented board could not be produced and marketed in competition with patented board before the passage of a substantial period of time; trade practices which had been standardized for years could not be made competitive in a matter of weeks, months, or, perhaps, even years; manufacturing plants which had been geared to the patents licensed could not be converted for a long time; jobbers could not re-enter the field as soon as a court decree ended the discrimination which had forced them out.

In any event, USG has made no effort whatever to show a dissipation of the effects of the antitrust conspiracy. It has broadly alleged termination of the illegal practices. But termination alone does not constitute purge in a case like this.

Moreover, none of the particular acts or events mentioned by USG to show purge (USG Br. 63) are even sufficient to make out a termination of the illegal practices

before the 1951 decree. We will consider and answer these facts *seriatim:*

1. USG expressly retained the right to again fix prices; price fixing was only one part of USG's illegal activities;

2. Though some of the defendant licensees ceased to pay royalties after March 8, 1948, that was a unilateral decision in which USG did not concur. USG constantly made its view clear that it remained entitled to compensation for the use of its patents and brought actions against various licensees for royalties under the illegal agreements. Furthermore there was no rescission of the illegal license agreements, as is clearly evidenced by USG's complaints based thereon.

3. The offer of new licenses was made only in connection with the consideration of a form of decree. It was not a commercial tender and the new licenses could only be deemed available when and if the decrees to which they were attached were adopted. No decree took effect in this case until May 15, 1951.

4. The decree of November 7, 1949, was stayed on motion of USG pending USG's appeal from that decree to the Supreme Court.

5. The interlocutory injunction entered by this Court on May 29, 1950 (339 U. S. 960) granted only partial relief, pending the Court's determination of what decree provisions were required and necessary "to cure the ill effects of the illegal conduct and to assure the public freedom from its continuance." (340 U. S. at 88.)

A decree which was intended to meet that standard was not entered until May 15, 1951. Moreover, no judicial decree can instanter dissipate the effects of a comprehensive conspiracy in restraint of trade such as that here involved.

We submit that none of the cases cited by USG (USG Br. 56-60) suggests that when a case of monopolization

and industry-wide restraint has been made out, a purge of misused patents can be effected by mere termination of the misuse. All of these decisions recognize implicitly or explicitly that dissipation of the effects of the misuse must also be shown in such a case. In this respect USG has made no showing.

Further, the cases cited by USG (USG Br. 56-60) in support of its argument that the five purge facts either constitute a purge of any patent misuse by USG or, at the least, prevent a summary judgment of non-purge, have no application to the case at bar. The first group of these cases (USG Br. 56-58) are to the effect that the patentee's affirmative unilateral action to cease or terminate the alleged patent misuse is a recognized means of purge. However, in none of the cases cited by USG was there a situation which is here present, to wit, a suit based upon the illegal patent license agreements, in which recovery was sought upon the self-same agreements which this Court and the District has held to be violative of the anti-trust laws and illegal, null and void. The cases cited by USG would be applicable, if USG dismissed in toto their suits against the appellees.

In this connection, we submit that there is nothing shocking in a court of equity denying a wrongdoer recovery on an illegal contract. *Bruce's Juices* v. *American Can Co.*, 330 U. S. 743, 748 (1947). This Court stated in that case, at page 756:

> "If in order to prove his own case a plaintiff proves his violation of law, then no court will aid the plaintiff to recover."

See also *Continental Wallpaper Co.* v. *Voight & Sons Co.*, 212 U. S. 227 (1909) and *Pennsylvania Water & Power Co.* v. *Consolidated Gas, Electric Light & Power Co.*, 209 F. 2d 131 (C. A. 4th, 1953), cert. den. 347 U. S. 960.

A second group of cases, holding that evidence of mutual

rescission or disregard of offending agreements establishes purge, is relied on by USG (USG Br. 59, 60). The foregoing statement of the holding of these cases is enough to establish that they can have no application to the case at bar. The suits filed by USG in the District Courts clearly show that there was no mutual rescission and no disregard of the offending agreements, since they were the basis of such suits.

The entry of an anti-trust decree enjoining the continuation of the alleged misuse is also relied upon by USG as establishing purge (USG Br. 60). This doctrine is of no consequence in this suit because, despite the decree enjoining the continuation of the alleged misuse, USG sued to recover royalties under the illegal agreements licensing the misused patents.

At page 61 of its brief USG again relies upon the argument, made throughout its brief and through the entire history of this case, of the narrow adjudication of law violation in this case. From that premise it contends that such adjudication fails to prove misuse in the 1948-1951 period. We submit that this Court has twice overruled USG's contention as to the narrow adjudication of law violation in this case and that, therefore, its argument based on such false premise is unsound. To sustain USG's contention would be a complete frustration of the decisions of this Court in the *Gypsum* case.

In the court below, USG made no attempt to introduce facts which would operate in law as purge. Consequently, the District Court, using its "more flexible procedure for the settlement of a decree" (340 U. S. 76), acted within the scope of its discretion in effectuating the basic purpose of the May 15th, 1951 decree, by barring USG from recovery on its misused patents in actions brought against petitioners based on illegal license agreements covering said patents. *Besser Mfg. Co.* v. *United States*, 343 U. S. 444 (1952); *International Salt Co.* v.

United States, 332 U. S. 392 (1947); *United States* v. *National Lead Co., supra; Associated Press* v. *United States*, 326 U. S. 1, 22 (1945); *United States* v. *Crescent Amusement Co.*, 323 U. S. 173 (1944); *Chrysler Corp.* v. *United States, supra.*

Application of Hartford-Empire to the Case at Bar.

USG relies on *Hartford-Empire, supra,* in Points II, III and IV of its brief to sustain various of its positions. We also rely on *Hartford-Empire* to sustain the 1954 decree entered by the District Court. We therefore believe it useful to discuss at some length the application of *Hartford-Empire* to the case at bar.

An order barring infringement actions for the period prior to the entry of the final anti-trust decree is a well-recognized remedy where patent abuses have been proved in an anti-trust action, and such a remedy is required for effective relief. On facts much less compelling than those that appear in the anti-trust record in this case, the courts have adopted and sustained provisions in anti-trust decrees barring infringement actions for the period prior to the entry of the decree. *Hartford-Empire Co.* v. *United States, supra; United States* v. *National Lead Co., supra.* See also *United States* v. *Vehicular Parking, Ltd., supra.*[10]

The decision of this Court in the *Hartford-Empire* case makes it clear that, in a situation like that at bar, complete relief against serious violations of the Sherman Act accomplished through misuse of patents can best be obtained

10. Lower court decisions have applied the teaching of these cases, so that it is now often provided in litigated anti-trust decrees that patentees misusing their patents under the anti-trust laws are enjoined from asserting infringement or other rights under their patents until the effects of their violations can be shown to have been fully dissipated. *Kobe, Inc.* v. *Dempsey Pump Co.*, 97 F. Supp. 342 (N. D. Okla. 1951), aff'd 198 F. 2d 416 (10th Cir. 1952), cert. denied 344 U. S. 837; *Apex Electrical Mfg. Co.* v. *Altorfer Bros. Co.*, 130 F. Supp. 152 (S. D. Ill., 1955).

through enjoining enforcement of the misused patents, at least with respect to the period antedating the anti-trust decree.

This Court dealt with the *Hartford-Empire* case in two separate opinions, the first in January 1945 (323 U. S. 386) and the second in April 1945 (324 U. S. 570). The *Gypsum* case was dealt with by the Supreme Court in three opinions, the first in March 1948 (333 U. S. 364), the second in May 1950 (339 U. S. 960) and the third in November 1950 (340 U. S. 76).

It appears from a reading of these five opinions that both cases were similar in the following four major respects:

(1) The unlawful combination controlled an entire industry. In *Gypsum* (east of the Rockies) the control was 100%; in *Hartford-Empire*, 94%.

(2) Control was effectuated through patent pooling and licensing. In *Hartford-Empire* the patents were pooled primarily in the Hartford-Empire Company; in *Gypsum*, the patents were pooled in USG.

(3) Control covered not only patented but unpatented products. In *Hartford-Empire*, the patents which covered machinery were used to extend control over unpatented glassware. In *Gypsum* the patents which covered wallboard were used to extend control over unpatented board and plaster.

(4) The patents were used to fix the prices of both patented and unpatented products. In *Hartford-Empire*, the patents were used to fix the price at which patented machinery was leased and licensed to glassware manufacturers and there was some slight evidence of price-fixing of unpatented glassware. In the *Gypsum* case price fixing was extended to all gypsum products, patented and unpatented.

The essential similarity of the two cases lies in the misuse of patents to accomplish an aggregation of restraints whose net effect was to regulate and regiment an entire industry.

This Court, in both cases, ordered compulsory licensing at reasonable royalties of both existing and future patents.

What is most significant is that in *Hartford-Empire*, the Government also was granted an injunction forbidding each of the corporate defendants from asserting any claim for infringement of misused patents for any period of time prior to the entry of the final judgment (323 U. S. 386, 418).

Hand-in-hand with the compulsory licensing remedy, this *Court ordered that the defendants also be enjoined from asserting any claims for alleged infringement prior to the entry of the Final Decree.* The pertinent statement of Mr. Justice Roberts, for the Court, is as follows (323 U. S. 386, 418-419):

> "Paragraph 26 enjoins all of the corporate appellants, and all of the individuals associated with them, until the entry of a finding by the court on the petition of any defendant that the consequences of the conduct of the defendants in violation of the anti-trust laws have been fully dissipated, from the following acts: (a) bringing, maintaining, or taking any action in any suit for infringement of any patent owned or controlled or hereafter issued * * *; (c) attempting to collect royalties or license fees for the use of any inventions covered by existing patents or applications for patents for glassware machinery.
>
> "Since paragraphs 21 to 24 (a) inclusive are to be eliminated, this paragraph which is ancillary to them, should also be deleted from the decree, *but in view of the nature of the conspiracy found,* an injunction should go against the further prosecution of all infringement suits pending at the date this suit was brought. Hartford and the other corporate defendants mentioned in

paragraph 24 should be required to lease or license glass-making machinery of the classes each now manufactures to any who may desire to take licenses (under patents on such machinery or on improvements, methods or processes applicable thereto) at standard royalties and without discrimination or restriction, and if at the time of entry of the decree there are any alleged infringers who are willing to take such licenses they should be released, and *the patent owner deprived of all damages and profits which it might have claimed for past infringement.* The decree should, however, be without prejudice to the future institution of any suit or suits for asserted infringements against persons refusing to take licenses under any of the presently licensed inventions *arising out of their use after the date of the decree.*" (Emphasis added.)

It is of compelling significance that this order was entered despite a strong factual showing that the misuses had been terminated long before the entry of said order. (Joint Brief for Appellants on Reargument, September 1944, pp. 92-102.) This is completely contrary to the situation presented by the record before the District Court in the case at bar.

The rule of anti-trust law established in the *Hartford-Empire* case has been consistently followed. See *United States* v. *National Lead Co., supra,* which followed *Hartford-Empire* and which also involved misuse of patents to control an entire industry. Judge Rifkind followed the teaching of the *Hartford-Empire* case and granted the Government the same remedies as that in *Hartford-Empire*, namely, compulsory licensing at reasonable royalties of existing and future patents, *and an injunction against suing any person for the alleged infringement, prior to the date of the final decree, of any misused patent* (63 F. Supp. 513, 535). This relief was affirmed by this Court (332 U. S. 319). See also *United States* v. *Vehicular Parking, Ltd., supra.*

The *Hartford-Empire* remedy was properly granted by the District Court because in this case the need for an injunction against infringement actions arising out of the pre-decree period is even clearer than it was in the *Hartford Empire* and like cases. The restraints of trade found in the case at bar have been recognized as being of a much more serious nature and pervasive effect than those commonly revealed in patent misuse cases. See *Westinghouse Electric Corp.* v. *Bulldog Electric Products Co., supra.* Morevoer, the decision of this Court in the *Hartford-Empire* case, *supra,* demonstrates that it is unnecessary to inquire into USG's conduct prior to entry of the Final Decree of May 15, 1951 to determine whether USG purged its patent misuse at any time prior to that date. For USG could not possibly make the same showing of termination of unlawful patent practices as that made by Hartford and its corporate co-conspirators. Indeed, unlike Hartford and its corporate co-defendants, USG at no time during the trial adduced any evidence that it had abandoned the restrictions of its licensing system; and USG contended, until at least May, 1950, that these restrictions were lawful.

There can be no question that, in a case like that here involved, an injunction against enforcement of misused patents for the pre-decree period is appropriate and vital to complete an effective anti-trust relief. Consequently, only a firm rule against infringement actions for the period antedating the anti-trust decree can effectively lead a co-conspirator to break away from an anti-trust conspiracy, as the smaller gypsum companies did in this case.

It is unnecessary to speculate why, when the Final Decree was formulated, the Government did not insist, in the *Gypsum* case, on the explicit injunction against infringement actions to which it was entitled under *Hartford-Empire,* and which it had sought in its complaint (1947 R. 346-347). At the time of the formulation of the 1951

decree, the record shows that the only claims under misused patents which USG or any other corporate defendants might make for the period prior to the entry of that decree were under patent licensing agreements adjudicated illegal, null and void by the 1951 decree; therefore, it was reasonable to believe that such adjudication barred any claim for use of misused patents prior to the 1951 decree, and made any additional relief unnecessary. In addition, USG did not, prior to the 1951 decree, assert any infringement claim against Certain-teed, or any of the other defendant licensees, or any other gypsum manufacturer. Before the 1951 decree it did not even send a notice of infringement to any of the defendant licensees or to any other gypsum board manufactuerer. At the time of the entry of the decree, therefore, on May 15, 1951, there was no indication that USG would attempt to assert infringement claims under its misused patents for any period prior to the entry of such decree. In this connection the statement made by the Government in its brief in the District Court (R. 814, footnote 6 hereof) is illuminating.

USG having asserted infringement and other claims against its competitors for the period prior to the entry of the 1951 decree, the District Court appropriately applied the rule of the *Hartford-Empire* case, forbidding the enforcement of misused patents, prior to the entry of a final decree in an anti-trust suit, where such patents have effectuated control of an entire industry.

We shall discuss in Point V hereof the propriety of the District Court's rejection of USG's contentions based on *Hartford-Empire*.

V.

USG'S CONTENTIONS BASED ON HARTFORD-EMPIRE, RULE 8 OF THE FEDERAL RULES OF CIVIL PROCEDURE AND 35 U.S.C., SECTION 271(d) WERE PROPERLY REJECTED BY THE DISTRICT COURT.

USG contends (USG Br. 36) that the District Court erroneously held that a continuing unpurged misuse of patents existed, as a matter of law, because USG sought compensation from the corporate appellees for the use of its patents in the years 1948-1951; that this holding was based upon the pleading by USG of Counts I and II of its complaint. In support of this contention USG refers to Conclusion 13 (R. 1157) from which certain significant language has been omitted.

USG's statement of the District Court's position is misleading. The District Court did not hold that the mere bringing of an action to recover money for the use of patents constituted misuse. It stated the basis for its holding of continued misuse in Conclusion 13 (R. 1157) as follows:

> "The course of conduct of USG, *as clearly shown by the proceedings of record in the Anti-trust case and in the suits by USG,* must be construed as meaning that USG has continued after May 15, 1951 to misuse its patents by seeking recovery, directly and indirectly, on the illegal license agreements up to this time. The attempt by USG to enforce the royalty provisions of the illegal patent license agreements is clear misuse of its patents; such misuse yet continues; and to allow prosecution of these suits, would weaken the effectiveness of the Final Decree" (emphasis added to indicate language omitted by USG).

It is urged by USG that the District Court's conclusion of law is not supported by any precedent and that the District Court's decision based thereon is in conflict with

Hartford-Empire, Rule 8 of the Federal Rules of Civil Procedure and the provisions of 35 U. S. C. § 271(d). The premise for these contentions is USG's claim that this Court in this case had found only a narrow Sherman Act violation (USG Br. 39). As we have heretofore repeatedly pointed out, this claim is completely without merit and was rejected by this Court twice and by the District Court in formulating its decrees of May 15, 1951 and December 9, 1954.

(a) In granting the relief sought by the Government with respect to compulsory licensing in the Government's appeal from the Decree of November 7, 1949, this Court, in its opinion in 340 U. S. 76 found such serious patent abuses as would warrant the relief sought by Certain-teed and the other corporate appellees; and the District Court so found. Article VI of the November 1949 Decree provided merely for compulsory licensing of all gypsum board patents for 90 days, to any applicant, at a royalty not in excess of the royalty theretofore charged to defendant licensees. On its appeal from that decree to the Supreme Court, the Government sought to expand the requirement of licensing to include *all* USG patents, old and new, with a provision by which new patents might be relieved from the compulsory licensing requirement after a period of years.

In support of this relief, the Government, like appellees in the instant proceeding, relied most heavily upon the *Hartford-Empire* and *National Lead* cases, contending that the broad misuse of patents, USG's position as the dominant factor in the industry, and USG's licensing policy, justified these remedies. The Government's brief pointed out that, in the *National Lead* case, the restraints were not as serious as in *Gypsum* and, therefore, remedies provided there should, *a fortiori*, be applied to *Gypsum*.

USG made substantially the same arguments in answer to the Government's appeal as it addressed to the District Court. In effect the same argument is made to this Court. USG contended that compulsory licensing was "an extreme and drastic remedy" heretofore applied only when necessary "to prevent further continuance of the violation enjoined in the decree"; that compulsory licensing under any other circumstance "is but to impose penalties in the guise of preventing future violations".[11] The *Hartford-Empire* and *National Lead* cases were sought to be distinguished on their facts: it was argued that in *Gypsum*, unlike *Hartford-Empire* and *National Lead*, the violation was a limited one; that the defendants were not guilty of bad faith.

This Court rejected USG's argument, stating (340 U. S. at 93-94):

> "In *United States* v. *National Lead Co.*, 332 U. S. 319, 335-351, we recently dealt with problems of licenses and royalties after a finding of Sherman Act violation. The arrangements on account of which the companies manufacturing titanium pigments in that combination were adjudged violators *were as offensive to the prohibitions of the Sherman Act as those proven in the present case.* Depending largely upon the discretion of the trial court, we refused to modify the decree. It ordered the accused patent owners to license all patents controlled by them concerning titanium and titanium manufactures during the succeeding five years at a reasonable royalty to be fixed by the Court. Paragraphs 4 and 7 of that decree, 332 U. S. at 335-357."
>
> "We think that the United States Gypsum Com-

11. The latter phrase is again quoted by USG at p. 40 of its brief. Yet this Court in *Hartford-Empire* where the quoted statement appears had no difficulty in granting compulsory licensing and in enjoining suits for infringements of misused patents prior to the date of the final decree.

pany should be required to license all its patents in the gypsum products field to all applicants on equal terms. Whether the term for compulsory licensing of new patents is to be five years, *or for a longer period* with the privilege to the appellees to move for a limitation for such new patents, as provided in the suggested decree, Article VI, § 6, we leave to the District Court." • • • (Emphasis added.)

It is clear, therefore, that this Court regarded the violation in *Gypsum* as at least as offensive as that in *National Lead*. The only discretion which this Court left to the District Court upon remand was the choice of the same or a more drastic remedy patentwise than in *National Lead*.

We have discussed *Hartford-Empire* and its significance to the remedy of modification ordered by the District Court in the 1954 decree at pp. 62-67 hereof. It will be recalled that in *National Lead*, the District Court followed the *Hartford-Empire* case and *also enjoined the defendant patentee, National Lead and DuPont, from bringing any infringement suits for royalties under their misused patents for any period of time prior to the entry of the decree.* This Court affirmed that decree, with praise (332 U. S. at 319).

Certainly one of the fruits of the conspiracy in which USG was the dominant factor was the promise on the part of the defendant licensees to pay royalties for the protection given by the price-fixing scheme. Appellees had already paid to USG millions of dollars in royalties for the use of USG's patents which were the means of fixing prices in the entire industry. If USG were to collect all the royalties claimed by it up to the time of the entry of the 1951 decree, it would obtain every benefit of the illegal conspiracy.

The District Court's Conclusion of Law with respect to *Hartford-Empire* reads:

> "Both because of the practical and legal situation in this case, and, also, the teaching in the *Hartford-Empire* case, the Final Decree should be modified to cover prohibition from prosecuting the USG suits insofar as they are based on patent infringement during the period covered by those suits." (Conclusion of Law 16, R. 1158.) See also the Court's opinion (R. 1009-1010).

USG contends that this Court in *Hartford-Empire* recognized that it was not a violation *per se* of the anti-trust laws for a patentee that has illegally licensed its patents to seek reasonable compensation for the use of those patents (USG Br. 38). This contention is based upon the argument that ear-marked royalties collected by a court-appointed receiver were in part paid over to Hartford-Empire. It should be noted at the outset that the ear-marked royalties problem was a special one peculiar to that case. The lower court had appointed a receiver at the time of the entry of the decree in order, *inter alia*, to prevent any abuse of the patent privileges of Hartford. (46 F. Supp. 541, 620 D. D. C., 1942.) The licensees had paid royalties to Hartford's receiver during the period between the initial and final decrees. Hartford's licensees, therefore, were not infringers during this period. This Court's disposition of this unique problem in its *second opinion* (324 U. S.) does not in any way limit its broad holding in its first opinion, followed in *National Lead*, that all defendants (including Hartford) are to be enjoined from bringing infringement claims under misused patents for the period prior to entry of the final decree (our period) and to license them at reasonable royalty rates thereafter. This Court's holding as to the disposition of the funds paid to the receiver constitutes no

precedent for USG's suits, filed long after the entry of the 1951 decree, based on the illegal license agreements and the so-called alternative counts.

This broad holding, derived from the Supreme Court's first *Hartford* opinion, was undoubtedly in the District Court's mind in finding that the teaching of the *Hartford* case was that infringement claims for the period prior to May 15, 1951, were to be barred. *Hartford,* therefore, fully supports the District Court's action in enjoining USG from enforcing its infringement counts.

We submit that this Court in the second *Hartford* opinion did not intend to draw a distinction between infringement and *quantum meruit* claims under patents; that the *quantum meruit* claim allowed was only as to rental and service charges for use of Hartford's machines, and not its patents; and that the second *Hartford* opinion cannot be construed to permit USG to go forward on its *quantum meruit* claim.

The construction of the second *Hartford* opinion contended for by Certain-teed is supported by the well established principle that a *quantum meruit* claim will not lie for the use of a patent.[12] We submit, therefore, that the

12. The remedies available for patent infringement are wholly statutory and have no common law basis. *Gayler* v. *Wilder,* 51 U. S. 477, 493 (1850); *Bellavance* v. *Plastic-Craft Novelty Co.,* 30 F. Supp. 37 (D. C. Mass., 1939). The patent owner has the election to sue at law for damages for infringement, or seek an injunction, accounting and damages in equity. 35 U. S. C. §§ 281, 283, 284; *Ryan Distributing Corp.* v. *Caley,* 51 F. Supp. 377 (E. D. Pa., 1943), aff'd 147 F. 2d 138 (C. A. 3rd, 1945), cert. denied 325 U. S. 859.

Infringement of a patent is a tort. *Carbice Corp.* v. *American Patents Corp.,* 283 U. S. 27, 33 (1931); *Stein* v. *Goddard,* 22 Fed. Cas. No. 13,353 (C. C. Cal., 1856); 69 C. J. S. p. 890. Accordingly, the law will not resort to the fiction of a contract on the part of the infringer to sustain a quasi-contractual action. *In re Paramount Publix Corp.,* 8 F. Supp. 644 (S. D. N. Y., 1934); see 1 Williston on Contracts, § 3.

It has been held in several cases that there is no quasi-contractual

District Court correctly held that Hartford-Empire furnished authority for and supports its 1954 decree ordering USG to dismiss its claim for infringement against the appellees.

(b) USG urges that the District Court's misuse of patent ruling is in conflict with Rule 8 of the Federal Rules of Civil Procedure (USG Br. 41). In ruling upon the misuse of patents, the right and power of the District Court to modify the 1951 decree did not rest upon that Court's interpretation of USG's pleadings. In Conclusion of Law 12 (R. 1157) the District Court found that Counts I and II based on the illegal license agreements violated the decree and that the so-called alternative counts were simply an indirect way of attempting to recover that which the final decree purposed to prevent. As we have heretofore pointed out, *quantum meruit* cannot lie for patent infringement, as the remedies for patent infringement are wholly statutory.

The *quantum meruit* counts are also barred because of the precept of *pari delicto*. It is settled by *Bruce's Juices* v. *American Can Co., supra* (at p. 748) that:

> "No recovery on *quantum meruit* could be had. The general rule is that a transaction wholly illegal will not support such a suit. See Williston, Contracts, Rev. ed. (1938) § 1786A; Am. Law Inst. Restatement, Contracts, Vol. 2, § 598, comment."

And again, at p. 756:

> "If, in order to prove his own case a plaintiff proves his violation of law, then no court will aid the plaintiff to recover."

---

action for patent infringement. *In re Paramount Publix Corp., supra; In re Boston & Fairhaven Iron Works*, 23 Fed. 880 (C. C. D. Mass., 1885); *Schillinger* v. *United States*, 155 U. S. 162 (1894); *United States* v. *Palmer*, 128 U. S. 262 (1888); cf. *DeWitt* v. *Elmira Nobles Mfg. Co.*, 66 N. Y. 459 (1876); *Cohan* v. *Robbins Music Corp.*, 244 App. Div. 697 (1st Dept., 1935).

USG's claim for *quantum meruit* is inseparably connected with and has its source in the unlawful license agreement between USG and Certain-teed; it is and must of necessity be based on Certain-teed's use of the misused patents prior to the entry of the final decree on May 15, 1951.

If Count III is read as a *quantum meruit* count, it is equally barred by this precept. If it is read as the District Court found, as a count "based on a pleaded expressed contract" (R. 1008) then it is, in effect, an amendment to the license agreements and, under the 1951 decree, also illegal, null and void; and action thereon was barred by said decree.

As to the infringement count, we have pointed out, at pages 63-67 hereof, that the District Court under the teaching of *Hartford-Empire* properly modified the 1951 decree to enjoin suit thereon by USG.

By this process of elimination it must be conceded that the District Court was called upon to pass on claims based on the illegal contracts or, at the most, upon said contract counts and a count for infringement. Under USG's theory, the Court should have treated USG's complaint as only a suit for infringement. We submit that this would be completely unrealistic because Counts I and II stated definite grounds for claimed relief and must be so regarded. These counts evidenced clearly that USG's claimed rights for compensation for the use of its patents stemmed from the illegal and void license agreements.

The District Court properly said of this contention of USG, "Those Counts (I and II) state definitely ground for claimed relief and must be so regarded" (R. 991).

USG (USG Br. 41) states that the sole function of a complaint in the District Court is to give a simple statement in sequence of the events which have transpired,

coupled with a claim for judgment for what the plaintiff hopes and expects to recover. We have no quarrel with this statement, but we contend that the District Court, having considered the events which have transpired in this case, necessarily concluded that USG was seeking to recover upon its illegal, null and void license agreements. The obvious problem with which USG was confronted in seeking recovery from the appellees was how to effect recovery on an illegal contract. The argument made by USG at p. 42 of its brief clearly shows how all of its claims are inter-related and inseparable and demonstrates that all of its claims stem from the illegal agreements.

The District Court, by its ruling in this case, did not penalize USG for pleading alternate and inconsistent claims. The gravamen of the District Court's ruling is that no matter how USG pleaded it was attempting to recover the royalties claimed to be due to it under the illegal license agreements, or the money equivalent thereof.

As we shall hereinafter point out, the Government has not implicitly acknowledged the correctness of USG's analysis stated at p. 43 of its brief.

(c) USG next contends that the Court's continued misuse ruling is in conflict with recent patent law codification. Quoting Sec. 271(d) (USG Br. 46).

From the face of Sec. 271(d) it appears that it merely lays down the principle that a patentee, *otherwise entitled to relief*, is not guilty of misuse by merely enforcing his patent right against *infringement or contributory infringement*. USG did not, in the instant proceeding, merely seek to enforce patents against infringement or contributory infringement. Its infringement claim constituted only one of five or six counts. The District Court's continued misuse ruling rests in part upon the fact that USG added to its infringement claim claims under the illegal license agreements (R. 1157).

It also appears plainly from the face of the statute that USG is in error in claiming that a suit on a license agreement is an enforcement of a patent right within the meaning of the statute. The statute is limited solely to enforcing "rights against infringement". A suit on a license agreement is on a contract; a suit for infringement is for a tort. The distinction is basic in the whole patent field.

Moreover, when the legislative history of Section 271(d) is examined, it is apparent that USG's construction of the statute has stretched and twisted its meaning. Section 271 of the Patent Act of 1952 developed as a result of the *Mercoid* cases [*Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661 (1944) and *Mercoid Corp.* v. *Minneapolis Honeywell Regulator Co.*, 320 U. S. 680 (1944)]. In the *Mercoid* cases this Court held that a patentee who was using his patent as an effective means of restraining competition in an unpatented article was guilty of misuse, and could not succeed in a contributory infringement action against one deliberately selling the unpatented article to an infringer, even though the unpatented device was itself an integral part of the patented system. Language in this Court's opinions that a patentee cannot use the patent to acquire a monopoly which is not plainly within the terms of the patent grant, raised the question whether a patentee, otherwise free of any misuse of his patent, could be said to be attempting to extend his patent grant and thereby misusing it by merely bringing a suit for contributory infringement. The *Mercoid* cases were interpreted by some members of the patent bar to forbid any contributory infringement suits [see, *e. g.*, Giles S. Rich "Infringement Under Section 271 of the Patent Act of 1952", 21 Geo. Wash. L. Rev. 521-46 (April 1953)], and at least one decision directly so held. *Stroco Products* v. *Mullenbach*, 67 U. S. P. Q. 168 (S. D. Cal., 1944). See also *Master Metal Strip Service* v. *Protex Weatherstrip Mfg.*

Co., 169 F. 2d 700 (C. A. 7th, 1948), cert. denied 335 U. S. 898.

In the *Stroco Products* case a contributory infringement action was dismissed on motion for summary judgment on the authority of the *Mercoid* cases, despite the fact that there was no evidence before the court that the plaintiff had by license or otherwise attempted to secure a monopoly on the unpatented portions of the complete combination covered by its patent. The district court held that the mere bringing of suit was misuse of plaintiff's patent.[13]

Because of the doubt and confusion as to the state of the law caused by the *Mercoid* cases and conflicting decisions resulting therefrom, the New York Patent Law Association sponsored various bills which resulted in the enactment of Section 271. See Hearings Before Committee on the Judiciary on H. R. 5988, 80th Cong. 2d Sess. (1948); Hearings Before Committee on the Judiciary on H. R. 3866, 81st Cong. 1st Sess. (1949); Hearings Before Committee on Judiciary on H. R. 3760, 82nd Cong. 1st Sess. (1951).

The resulting statute, Section 271, was designed to, and did re-assert conclusively the right to sue for contributory infringement. Subsection (d) is ancillary to subsections (b) and (c) which define and limit contributory infringement of a patent. Reviser's Note to Section 271. Subsection (d)'s purpose, in the words of the Judiciary Committee

13. It should be noted that this case is a direct holding that the mere bringing of suit can be misuse. Legislation, *i. e.*, Section 271 (d) overruled this case, but only in its limited field. Cf. *Kobe* v. *Dempsey Pump Co., supra.* It may be that there are no cases as USG contends (USG Br. 46) directly holding that the mere bringing of a suit on an unlawful license agreement and in the alternative compensation for patents covered by said agreement, but that is undoubtedly due to the fact that no one before has urged, as has USG, the right to recover royalties on a license agreement adjudged to be illegal, null and void.

Report, is to provide "that one who merely does what he is authorized to do by statute is not guilty of misuse of the patent." Sen. Rep. No. 1979, 82nd Cong. 2d Sess. p. 8 (1952); H. R. Rep. No. 1923, 82nd Cong. 2d Sess. p. 9 (1952).

It can be seen from the above history of Section 271, both case and legislative, that it is designed to clarify the law only in the limited area of contributory infringement, and authorizes actions for contributory infringement where the patentee is not otherwise misusing his patent.

We submit that, for the foregoing reasons, USG cannot claim that its suits on license agreements which have been adjudicated illegal because of misuse of patents are proper because of any argument based on Section 271(d).

Cole v. *Hughes Tool Company*, 215 F. 2d 924 (10th Cir., 1954), cited by USG (USG Br. 44-45) is of no assistance to USG's position on this question. All that was held in that case was that one who in good faith seeks by an infringement suit to enforce a patent found invalid for lack of invention, is protected by § 271 (d). Hughes unlike USG was not seeking to recover on a license agreement adjudicated to be illegal or upon misused patents. USG's situation is akin to Kobe, in *Kobe* v. *Dempsey Pump Co.*, *supra*, whose conduct in monopolizing the rodless pump industry through the acquisition of patents is referred to by the Court of Appeals in the *Hughes* case as evidencing conduct which could not claim the protection of Sec. 271 (d).

USG's argument that the ruling of the District Court was in conflict with Section 271(d) of the patent laws was completely answered by the District Court's memorandum opinion in its denial of USG's motion for a new trial (R. 1336). As the District Court pointed out:

> "The vital words of 271(d) are 'entitled to relief'. • • • We cannot believe that paragraph (d) was in-

tended to or can properly be construed as nullifying the power of this Court to effectuate the purposes of an anti-trust decree. In short USG is *not* 'otherwise entitled' to come within paragraph (d)(3)."

It seems to us clear that where, as here, there has been a misuse of patents adjudged to be violative of the anti-trust laws, Section 271(d) can have no application.

The Government's Position on the So-Called Alternative Counts in USG's Complaints.

USG has repeatedly urged in its brief (USG Br. 20, 31, 43, 65, 70) that the Government does not question the right of USG to seek a *quantum meruit* or infringement recovery; does not contend that assertion of such claims is violative of the 1951 decree; that, as a result, there is no dispute between the Government and USG that the *quantum meruit* and infringement claims, the so-called alternative counts, are not in violation of the 1951 decree or in conflict with its basic purpose; that the Government has implicitly acknowledged that under Rule 8 of the Federal Rules of Civil Procedure reliance by USG on Counts I and II of their suits would not bar USG's claims on the so-called alternative counts.

These statements are conclusions of USG, and as we have shown at pages 19, 21, 35-36 hereof, are not correct. The Government invoked the jurisdiction of the District Court to enjoin USG from prosecuting its suits in the District Courts of Iowa, New York and New Jersey, because they were based in whole or in part upon the illegal license agreements and were, therefore, barred by and constituted an attempt to defeat the 1951 decree. The Government further expressly stated that the District Court which entered the 1951 decree was alone empowered to determine what further orders, if any, it would

issue by way of implementation or modification of its judgment. The same arguments which USG has made in its brief in this Court were made before the District Court and rejected. The Government did not agree with the conclusions stated by USG, nor did the District Court. We submit that no weight should be given by this Court to these assertions of USG.

Throughout the long history of this case, the Government has consistently sought to establish a broad violation of the anti-trust laws through the use of patent license agreements by USG as the principal "dominant concern in the gypsum industry." 333 U. S. 368. In order to accomplish this purpose it has taken two appeals to this Court, resulting in the enlarged and broadened decree of May 15, 1951. When USG's suits were filed, the Government filed a petition praying that USG be enjoined from asserting any claim or maintaining any action "*based in whole or in part* on any of the license agreements adjudged illegal, null and void by the final decree of this Court * * * or on any provision thereof" (R. 757, emphasis added).

In its brief and argument in the District Court the Government strenuously urged that the District Court had jurisdiction to enjoin USG's suits both under the reservation of Article X of the 1951 decree and under its inherent equity power (R. 881).

In the face of the foregoing course of action, we believe it is stultifying for the Government to take such an anomalous position as to allow USG to make such speculations of the Government's position as are referred to above. We believe that the Government owes a duty to this Court to clearly and definitely state what its views are regarding USG's right to recover on the so-called alternative counts for exactly the same amount of money which it seeks to

recover under the counts admittedly based on the illegal license agreements. We submit that this Court should require the Government to make an affirmative statement as to its position on this point. The Government is directly responsible for sixteen years of litigation. It has created the situation now before this Court. Let it speak out.

CONCLUSION.

For the foregoing reasons, the Decree of the District Court entered December 9, 1954 should be affirmed.

DONALD N. CLAUSEN,
HERBERT W. HIRSH,
NORMAN A. MILLER,
Attorneys for Appellee, Certain-teed Products Corporation.

CLAUSEN, HIRSH & MILLER,
135 South La Salle Street,
Chicago 3, Illinois,

PURCELL & NELSON,
910 17th Street, N. W.,
Washington 6, D. C.,
Of Counsel.

FILED
OCT 27 1956
JOHN T. FEY, Clerk

IN THE

Supreme Court of the United States

October Term, 1956

No. 11

UNITED STATES GYPSUM COMPANY,

Appellant,

—vs.—

NATIONAL GYPSUM COMPANY,
UNITED STATES OF AMERICA, *et al.*,

Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

BRIEF OF APPELLEE NATIONAL GYPSUM COMPANY

SAMUEL I. ROSENMAN
ELMER E. FINCK
SEYMOUR D. LEWIS
MALCOLM A. HOFFMANN
SEYMOUR KRIEGER
GILBERT S. EDELSON

Attorneys for National Gypsum Company

Of Counsel:

FINCK & HUBER
804 Liberty Bank Building
Buffalo 2, New York

ROSENMAN GOLDMARK COLIN & KAYE
575 Madison Avenue
New York 22, New York

SEYMOUR KRIEGER
777 Fourteenth St., N.W.
Washington 5, D. C.

INDEX

PAGE

Jurisdiction 2

Statutes and Rules Involved 3

Questions Presented 4

Statement of Case 4

A. Proceedings resulting in the Final Decree of May 15, 1951 5

B. Events since the entry of the Final Decree of May 15, 1951 15

C. The USG suits for royalties under the unlawful license agreements and under alternative theories 15

D. Petitions for orders, modifications or directions for the enforcement, construction or carrying out of the Final Decree of May 15, 1951 18

E. Further proceedings in the District Court 19

F. The District Court's Opinion, Findings and Conclusions 20

G. The Appeal to this Court 22

Summary of Argument 23

ARGUMENT: PAGE

I. The District Court had jurisdiction to enforce, construe and modify the Final Decree of May 15, 1951 28

A. The District Court had the power to interpret its own decree, to determine whether these claims would impair the integrity of its decree, and to prevent possible nullification of it in another forum 29

B. The District Court had power to modify its decree in order to effectuate its basic purposes 32

C. The Court had the power to enjoin prosecution of USG's actions in other Federal Courts in order to avoid a multiplicity of actions 36

D. National and all other petitioners had standing to petition for orders, modifications or directions for the enforcement, construction or carrying out of the Final Decree of May 15, 1951 39

II. The District Court properly construed the 1951 Decree to bar Counts I and II of the Iowa action. It also properly construed the 1951 Decree to bar all the other counts claiming compensation prior to 1951 44

A. Counts I and II of the Iowa Action were properly enjoined because their prosecution violated Article IV of the Decree 44

PAGE

B. The fair intendment of the Final Decree of May 15, 1951 barred USG from prosecuting all counts of its Iowa Action 48

III. The lower Court acted within its discretion in modifying the 1951 Decree to bar USG's Counts IV (*quantum meruit*) and V (infringement) 51

A. The Hartford and National Lead cases support the remedy of pre-decree injunction against infringement suits 54

B. Other facts support the District Court's discretion 59

C. The District Court's exercise of discretion should not be disturbed on appeal 61

IV. The District Court also properly enjoined USG from enforcing its patent for the period prior to the 1951 Decree because of the unpurged misuse 63

A. The incontrovertible facts in this Court's second decision (340 U. S. 76) show sweeping misuse by USG 65

B. The "Morton Salt Doctrine" bars recovery on misused patents until misuse has been terminated and its effects have been dissipated 69

C. USG having failed below to offer proof of purge sufficient in law had no right to a hearing for the purpose of taking testimony concerning purge 75

PAGE

V. The District Court correctly ruled that USG's suits constituted a fresh misuse because they sought to enforce the illegal license agreements 78

A. The fresh abuse ruling does not conflict with Section 271(d) of Title 35 79

B. The fresh abuse ruling does not conflict with Rule 8 82

CONCLUSION 83

APPENDIX A 1a

Table of Cases

Altoona Publix Theatres, Inc. v. American Tri-Ergon Corp., 294 U. S. 477 (1935) 64
Aluminum Co. v. United States, 302 U. S. 230 (1937) 31
Armstrong v. De Forest Radio Telephone & Telegraph, 110 F. 2d 727 (2d Cir. 1926), *cert. denied*, 270 U. S. 663 (1926) 35, 59
Associated Press v. United States, 326 U. S. 1 (1945) 61

B. B. Chemical Co. v. Ellis, 314 U. S. 495 (1942) 69
Besser Mfg. Co. v. United States, 343 U. S. 444 (1952) 62
In re Boston & Fairhaven Iron Works, 23 Fed. 880 (C. C. D. Mass. 1885) 52
Bruce's Juices v. American Can Co., 330 U. S. 743 (1947) 52
Buckeye Coal & Ry. Co. v. Hocking Valley Ry. Co., 269 U. S. 42 (1925) 41

Campbell v. Mueller, 159 F. 2d 803 (6th Cir. 1947) 68

PAGE

Carbice Corp. v. American Patents Corp., 283 U. S. 27 (1931) 51
Chiplets, Inc. v. June Dairy Products Co., 89 F. Supp. 814 (D. N. J. 1950) 68
Chrysler Corporation v. United States, 316 U. S. 556 (1942) 23, 32, 34, 35, 36
Cohan v. Robbins Music Corp., 244 App. Div. 697 (1st Dept. 1935) 52
Crosley Corp. v. Hazeltine Corp., 122 F. 2d 925 (3rd Cir. 1941); *cert. denied*, 315 U. S. 813 (1942) 29, 30, 37

De Witt v. Elmira Nobles Mfg. Co., 66 N. Y. 459 (1876) 52
Dugas v. American Surety Co., 300 U. S. 414 (1937) 30, 35, 44

Edward Katzinger Co. v. Chicago Metallic Mfg. Co., 329 U. S. 394 (1947) 45, 71, 72

Frank Adam Electrical Co. v. Westinghouse Elec. & Mfg. Co., 146 F. 2d 165 (8th Cir. 1945) 64

In re Georgia Power Co., 89 F. 2d 218 (5th Cir. 1937), *cert. denied*, 302 U. S. 692 (1937) 30
Guaranty Trust Co. v. Broadway & 7th Ave. R. Co., 43 F. 2d 130 (S. D. N. Y. 1930) 29
Gunter v. Atlantic Coast Line R.R. Co., 200 U. S. 273 (1906) 30

Harkrader v. Wadley, 172 U. S. 148 (1898) 30
Harriman v. Northern Securities Company, 197 U. S. 244 (1905) 31
Hartford-Empire Co. v. United States, 323 U. S. 386..21, 26, 52, 53, 54, 55, 57, 58, 59, 65, 79
Hartford-Empire Co. v. United States, 324 U. S. 570..52, 56

PAGE

Hecht Co. v. Bowles, 321 U. S. 321 (1944) 34
Hoague-Sprague Corp. v. Bird & Son, 91 F. Supp. 159 (D. Mass. 1950) 72
Holmes v. Rowe, 97 F. 2d 537 (9th Cir. 1938) 29
Hughes v. United States, 342 U. S. 353 (1952) 24, 33, 36

International Salt Co. v. United States, 332 U. S. 392 (1947) 61, 62
Iron Mountain R. Co. v. Memphis, 96 Fed. 113 (6th Cir. 1899) 30

Kerotest Mfg. Co. v. C-O-Two Co., 342 U. S. 180 (1952) 29
Kessler v. Eldred, 206 U. S. 285 (1907) 30
Kobe v. Dempsey Pump Co., 198 F. 2d 416 (10th Cir. 1952) *cert. denied* 344 U. S. 837 (1952) 81

Land v. Dollar, 190 F. 2d 366 (D. C. Cir. 1951), cert. dismissed on motion, 344 U. S. 806 29
Lincoln Electric Co. v. Linde Air Products Co., 171 F. 2d 223 (6th Cir. 1948) 77
Local Loan Co. v. Hunt, 292 U. S. 234 (1934) 30, 44
Local 167, International Brotherhood of Teamsters v. United States, 291 U. S. 293 (1934) 71
Louis v. Brown Township, 109 U. S. 162 (1883) 40

MacGregor v. Westinghouse Elec. & Mfg. Co., 329 U. S. 402 (1947) 45, 71, 72
Master Metal Strip Service v. Protex Weatherstrip Mfg. Co., 169 F. 2d 700 (7th Cir., 1948), *cert. denied*, 335 U. S. 898 (1948) 81
McCullough v. Kammerer Corporation, 166 F. 2d 759 (9th Cir. 1948) *cert. denied* 335 U. S. 813 (1948) 68
Mercoid Corp. v. Mid-Continent Investment Co., 320 U. S. 661 (1944) 64, 81

PAGE

Mercoid Corp. v. Minneapolis Honeywell Regulator Co., 320 U. S. 680 (1944) 81
Missouri-Kansas Pipe Line Co. v. United States, 312 U. S. 502 (1941) 24, 42
Missouri Pac. Ry. Co. v. Jones, 170 Fed. 124 (W. D. Mo. 1909), appeal dismissed, 178 Fed. 1003 (8th Cir. 1910) 30
Morton Salt Co. v. G. S. Suppiger Co., 314 U. S. 488 (1942) 64, 66, 67, 68, 69, 70, 77, 78
Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U. S. 502 (1917) 65

National Foam System, Inc. v. Urquhart, 202 F. 2d 659 (3rd Cir. 1953) 69
National Lead Co. v. United States, 332 U. S. 319 (1947) 26, 53, 54, 58, 59, 61, 62
National Lockwasher Co. v. George K. Garrett Co., 137 F. 2d 255 (3d Cir. 1943) 68
Newburgh Moire Co. v. Superior Moire Co., 105 F. Supp. 372 (D. N. J. 1952) 68
Northern Securities Company v. United States, 193 U. S. 197 (1904) 31

In re Paramount Publix Corp., 8 F. Supp. 644 (S. D. N. Y. 1934) 51, 52
Park-In Theatres v. Paramount-Richards Theatres, Inc., 81 F. Supp. 466 (D. Del. 1948) 68, 70
Park-In Theatres v. Paramount-Richards Theatres, Inc., 90 F. Supp. 730 (D. Del. 1950), *aff'd.* 185 F. 2d 407 (3rd Cir. 1950), *cert. denied,* 341 U. S. 950 (1951) 77
Pope Mfg. Co. v. Gormully, 144 U. S. 224 (1892) 68

Root v. Woolworth, 150 U. S. 401 (1893) 30, 35
F. C. Russell Co. v. Consumer's Insulation Co., 226 F. 2d 373 (3d Cir. 1955) 72

PAGE

Schillinger v. United States, 155 U. S. 163 (1894) 52
S. C. Johnson & Son v. Johnson, 175 F. 2d 176 (2d Cir. 1949) 35
Standard Oil Co. v. Clark, 163 F. 2d 917 (2d Cir. 1947), *cert. denied*, 333 U. S. 873 (1948) 31
Standard Oil Co. v. Markam, 64 F. Supp. 656 (S. D. N. Y. 1945) modified and aff'd, 163 F. 2d 917 (2d Cir. 1947) *cert. denied*, 333 U. S. 873 31
Steelman v. All Continent Corp., 301 U. S. 278 (1937) 37
Stein v. Goddard, 22 Fed. Cas. No. 13,353 (C. C. Cal. 1856) 51
Stroco Products v. Mullenbach, 67 U. S. P. Q. 168 (S. D. Cal. 1944) 81
Swift v. Black Panther Oil & Gas Co., 244 Fed. 20 (8th Cir. 1917) 29, 30

Terminal R. R. Assn. v. United States, 266 U. S. 17 (1924) 41
Toledo Scale Co. v. Computing Scale Co., 261 U. S. 399 (1923) 29

United Shoe Machinery Corp. v. United States, 258 U. S. 451 (1922) 72
United States v. Bendix Home Appliances, 10 F. R. D. 73 (S. D. N. Y. 1949) 41
United States v. Columbia Gas & Electric Corp., 27 F. Supp. 116 (D. Del. 1939), appeal dismissed, 108 F. 2d 614 (3rd Cir. 1939), *cert. denied* 309 U. S. 687 (1940) 41
United States v. Crescent Amusement Co., 323 U. S. 173 (1944) 61, 62
United States v. General Electric Co., 95 F. Supp. 165 (D. N. J. 1950) 41
United States v. Hartford-Empire Co., 46 F. Supp. 541 (N. D. Ohio 1942) 56

PAGE

United States v. International Harvester Co., 274 U. S. 693 (1927) 34
United States v. National Lead Co., 332 U. S. 319 (1947) 33, 61, 62
United States v. Northern Securities Co., 128 Fed. 808 (S. D. Minn. 1904), *aff'd.* 193 U. S. 197 (1904) 41
United States v. Oregon Medical Society, 343 U. S. 326 (1952) 71
United States v. Palmer, 128 U. S. 262 (1888) 52
United States v. Radio Corporation of America, 3 F. Supp. 23 (D. Del. 1933) 41
United States v. Reading Co., 300 Fed. 477 (E. D. Pa. 1924) 30
United States v. Swift & Co., 286 U. S. 106 (1932) 28, 32, 34, 35
United States v. Vehicular Parking, Ltd., 56 F. Supp. 297 (D. Del. 1944), 61 F. Supp. 656 (D. Del. 1945) 53, 70
United States v. Western Pa. Sand and Gravel Assn., 114 F. Supp. 158 (W. D. Pa. 1953) 35
United States v. W. T. Grant Co., 345 U. S. 629 (1953) 71
United States v. United States Gypsum Co., et al., 67 F. Supp. 397 (D. D. C. 1946) 6
United States v. United States Gypsum Co., et al., 333 U. S. 364 (1948) 2, 4, 6, 7, 55, 60, 66, 67, 76
United States v. United States Gypsum Co., et al., 333 U. S. 869 (1948) 4, 76
United States v. United States Gypsum Co., et al., 339 U. S. 959 (1950) 4, 11, 76
United States v. United States Gypsum Co., et al., 339 U. S. 960 (1950) 4, 11, 76
United States v. United States Gypsum Co., et al., 340 U. S. 76 (1950) 2, 4, 11, 12, 22, 52, 65, 66, 67, 74, 76

PAGE

Urquhart v. United States, 109 F. Supp. 409 (Ct. Cls. 1953) 69

Westinghouse Elec. Corp. v. Bulldog Elec. Prods. Co., 179 F. 2d 139 (4th Cir. 1950) 68
Wilson v. Alexander, 276 Fed. 875 (5th Cir. 1921) 30

Statutes and Rules Cited

Federal Rules of Civil Procedure—

Rule 8 ..... 4, 28, 79, 82, 83
Rule 41(b) 6

15 U. S. C., Sections 1, 2, 3 and 4 ..... 2, 4, 5
15 U. S. C., Section 29 3
28 U. S. C., Sections 1253 and 2101(b) 3
28 U. S. C., Section 1651(a) 3, 23, 28, 35
35 U. S. C., Section 271 ..... 4, 27, 79, 81
35 U. S. C., Sections 281, 283, 284 51

Miscellaneous Citations

Chafee, Bills of Peace with Multiple Parties, 45 Harv. L. Rev. 1297 (1932) 37
30 C. J. S., Equity, Section 6031 40
69 C. J. S., p. 890 51
66 Harvard Law Review, 909 (1953) 82
Hearings Before Committee on the Judiciary on H. R. 5988, 80th Cong. 2d Sess. (1948) 82

PAGE

Hearings Before Committee on the Judiciary on H. R. 3866, 81st Cong. 1st Sess. (1949) 82

Hearings Before Committee on Judiciary on H. R. 3760, 82nd Cong. 1st Sess. (1951) 82

House Report No. 1923, 82nd Cong. 2d Sess., p. 9 (1952) 82

6 Moore's Federal Practice 77

Report of James A. Shanley, Receiver of Hartford-Empire Co., On the Operation and Results of the Receivership, Aug. 28, 1944 57

Restatement of Contracts, Section 598, Comment c 52

Rich, "Infringement Under Section 271 of the Patent Act of 1952," 35 J. P. O. S. 476-500 (July 1953), 21 Geo. Wash. L. Rev. 521-46 (April 1953) 81

Senate Report No. 1979, 82nd Cong. 2d Sess., p. 8 (1952) 82

Transcript of Record, Supreme Court of the United States, October Term 1943 Nos. 7-11, *Hartford-Empire Co.* v. *United States,* Vol. X, p. 7338 55

Transcript of Record Before the Supreme Court of the United States, No. 115, *Missouri-Kansas Pipeline Co.* v. *United States,* October Term 1924, p. 496 42

Williston, Contracts, Section 3 .....51, 52

Williston, Contracts, Section 1786(a) 52

IN THE

Supreme Court of the United States

October Term, 1956

No. 11

UNITED STATES GYPSUM COMPANY,

Appellant,

—VS.—

NATIONAL GYPSUM COMPANY,
UNITED STATES OF AMERICA, *et al.*,

Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

BRIEF OF APPELLEE NATIONAL GYPSUM COMPANY

This appeal is the latest phase of an antitrust prosecution brought by the United States against United States Gypsum Company ("USG"), National Gypsum Company ("National") and others[1] in 1940.

The matter has been docketed as *United States Gypsum Company, Appellant* v. *National Gypsum Company, et al., Appellees,* although in the court below and in all previous proceedings, it was entitled, *United States of America* v.

---

1 Certain-teed Products Corporation ("Certain-teed"); The Celotex Corporation ("Celotex"); Ebsary Gypsum Company, Inc. ("Ebsary"); Newark Plaster Company ("Newark"); Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Company; Sewell L. Avery; Oliver M. Knode; Melvin H. Baker; Frederick Ebsary; and Frederick Tomkins.

Jurisdiction

This appeal is from a decree, entered December 9, 1954, by a statutory three-judge court (one judge dissenting) of the United States District Court for the District of Columbia (R. 1159),[2] ordering modification of a Final Decree of that court entered May 15, 1951 (R. 562). The Final Decree was the result of an action, instituted by the United States on August 13, 1940 against, among others, USG, National, Certain-teed, Newark and Ebsary under Sections 1, 2, 3 and 4 of the Sherman Act (Act of July 2, 1890, 26 Stat. 209, as amended; 15 U. S. C., Sections 1, 2, 3 and 4).

On January 28, 1953, USG commenced an action in the United States District Court for the Northern District of Iowa against National, among other things claiming royalties in the amount of $1,600,000 under a license agreement which had been adjudicated unlawful, illegal, null and void in the antitrust proceeding, and the same amount under alternative legal theories (R. 614, 769; App. A).[3] Subsequently, petitions were filed by the United States (R. 739), National (R. 604) and others in the statutory three-judge court for orders, modifications, or directions for the en-

---

2 Record references to the record on appeal in this case in the October 1947 term of the Court (see 333 U. S. 364) by stipulation will be designated "1947 R." Record references to the record on appeal in this case in the October 1950 term (see 340 U. S. 76) will be designated "1950 R." All other references are to the record printed herein and will be designated "R."

3 Appendix A (App. A) sets forth the USG complaint and amended complaint in the Iowa action.

forcement, construction, or carrying out of the Final Decree of May 15, 1951.[4]

On December 9, 1954, the statutory three-judge court issued its decree, which ordered USG to dismiss with prejudice its action against National in the Northern District of Iowa and the other actions referred to in note 4 (R. 1159). USG's motion for new trial was denied on June 30, 1955 (134 F. Supp. 69, R. 1336) and its notice of appeal was filed on August 26, 1955 (R. 1340). USG filed its Jurisdictional Statement on October 24, 1955.[5] National and Certain-teed filed motions to affirm on November 22, 1955 and on December 12, 1955, USG filed a brief in opposition to such motion. On January 16, 1956, this Court noted probable jurisdiction (350 U. S. 946).

Statutes and Rules Involved

Section 1651(a) of the Judicial Code, 28 U. S. C., Section 1651(a) reads as follows:

> "The Supreme Court and all courts established by Act of Congress may issue all writs necessary or appropriate in aid of their respective jurisdictions and agreeable to the usages and principles of law."

---

4 Appellees Certain-teed, Newark and Ebsary, which were sued by USG in federal courts in similar actions (R. 622-654), also petitioned the statutory three-judge court for similar relief (R. 657, 666, 669).

5 In its Jurisdictional Statement (p. 3), USG asserted that the jurisdiction of this Court to review the decree of December 9, 1954 by direct appeal is conferred by 28 U. S. C. §§1253 and 2101(b). National in its motion to affirm the judgment of the court below (p. 1), indicated its belief that these statutes had not been properly invoked and that the appeal should be founded on Sec. 2 of the Expediting Act, 15 U. S. C. §29. That statute is now relied on by appellant (USG Br. 3).

15 U. S. C., Sections 1, 2, 3 and 4 (The Sherman Act); Federal Rules of Civil Procedure, Rule 8, describing general rules of pleading; and 35 U. S. C., Section 271, relating to the infringement of patents, are set forth as Appendices to Appellant's Brief (hereinafter cited as USG Br.).

Questions Presented

1. Whether the District Court had power to enforce, interpret and modify its decree in order to enjoin USG from prosecuting suits in other federal courts, and whether the petitioners below had standing to activate that power.

2. Whether the District Court, having the power to enforce, interpret and modify its own decree, properly, under the circumstances of this case, exercised that power.

3. Whether the District Court properly ruled, as a matter of law, that there was no purge by USG of its misused patents, and that USG on the offer of proof made was not entitled to a hearing on this question.

Statement of Case

The appeal now before the Court is the most recent result of proceedings instituted in 1940 which five times before resulted in rulings by this Court, 333 U. S. 364 ("First Decision," March 8, 1948), 333 U. S. 869 (rehearing den., April 5, 1948), 339 U. S. 959 (USG's appeal from District Court's decree of November 7, 1949, denied, May 29, 1950), 339 U. S. 960 (on Government's appeal to enlarge relief, probable jurisdiction noted, and injunction granted, May 29, 1950), 340 U. S. 76 ("Second Decision," November 27, 1950).

A. *Proceedings resulting in the Final Decree of May 15, 1951*

1. *The antitrust action brought by the United States.* The 1940 complaint charged defendants USG, National, Newark, Ebsary and Certain-teed and two other corporations and six individuals with conspiring to fix prices on patented gypsum board and unpatented gypsum products, and otherwise to restrain and monopolize interstate commerce in gypsum board and other gypsum products, in violation of Sections 1, 2 and 3 of the Sherman Act (1947 R. 1). An expediting certificate was filed under the Expediting Act of February 11, 1903, as amended, and a three-judge district court was appointed (1947 R. 304, 305).

On March 12, 1943 (1947 R. 350) the District Court gave leave to the Government to amend the prayers of its complaint to include the following request (1947 R. 347):

> "That the defendant companies, and each of them, and their directors, officers, employees, and agents, and all persons or corporations acting on behalf of said companies be enjoined from
>
> "(a) bringing any action for infringement of any patent or patents now owned or controlled by any of the defendants or hereafter issued on pending applications now owned or controlled by any of the defendants,
>
> "(b) attempting by suit or otherwise to collect royalties or license fees or profits for the use of patents now owned or controlled by any of the defendants or hereafter issued on pending applications now owned or controlled by any of the defendants relating to gypsum products or to any process or machine used in connection with gypsum products, until it is made to appear to the Court that all improper practices have been abandoned and the consequences of all misuses of patents have been dissipated."

On April 20, 1944, at the close of the presentation of the Government's evidence, the defendants moved to dismiss

the complaint under Rule 41(b) of the Federal Rules of Civil Procedure upon the ground that on the facts and law the Government had shown no right to relief (1947 R. 3901-3905). On June 15, 1946, the District Court granted this motion (1947 R. 3933-4131; 67 F. Supp. 397). On August 5, 1946, the District Court filed findings of fact and conclusions of law and entered judgment dismissing the complaint (1947 R. 4132-4168, 4169).

2. *The first decision of this Court.* On appeal, this Court reversed the judgment of dismissal and remanded the case for further proceedings in conformity with its opinion (333 U. S. 364).

In its opinion handed down March 8, 1948, this Court found that U. S. Gypsum, "the dominant concern in the gypsum industry" (333 U. S. at 368), had, "acting in concert with all members of an industry" by substantially identical patent licenses, "regimented" an entire industry, "suppressed" production of unpatented products, "stabilized" prices on unpatented products and "squeezed out" a class of distributors (333 U. S. at 400-401).

The Court found that patent infringement suits and threats of such suits by USG resulted in industry-wide license agreements which brought about regimentation of the gypsum industry (333 U. S. at 371).[6]

In addition, the Court also found upon the undisputed facts that defendants had adopted a delivered price-basing point system, specified board sizes, prescribed minimum quantities, regulated terms of delivery, prohibited consignment sales and in other ways minutely regulated manufacture and distribution in the entire industry (333 U. S. at 382, 383).

---

6 Such agreements included those upon which USG sued National and the other defendants.

On the basis of these findings and conclusions, and since the District Court's order of dismissal had come at the end of the Government's presentation of its evidence, this Court reversed the order of dismissal, and remanded the case for further proceedings in conformity with its opinion. 333 U. S. at 401-402.[7]

3. *Proceedings on remand after the first decision of this Court.* Following remand of the case to the District Court, the Government filed a motion for summary judgment (R. 35) and the defendants filed a proffer of proof (R. 36-52). On June 29, 1948, the District Court heard argument on the Government's motion in relation to defendant's proffer (R. 54-137). The Court then orally ruled that the proffered proof gave rise to no genuine issue as to any fact material to an adjudication that the defendants had violated the Sherman Act, and that summary judgment should be granted (R. 137-138). Chief Judge Stephens dissented from these rulings (R. 138-140, 478).

Thereafter, the Government filed proposed findings of fact and conclusions of law (1950 R. 207-249) and a pro-

---

7 National, under a license agreement made in 1929 with USG, was required to pay USG royalties on all gypsum wallboard and plasterboard, unpatented as well as patented, manufactured and sold until the date of the expiration of the last patent covered by the agreement—Roos, Pat. No. 2,017,022 (hereinafter referred to as the Roos Patent)—which expired October 7, 1952 (R. 605). National paid all royalties due under its agreement with USG until March 10, 1948 when royalties for the month of February, 1948 would have become due (R. 607). Following this Court's decision of March 8, 1948, that its license agreement was unlawful (333 U. S. 364), National chose to stop paying royalties (R. 607). It paid no royalties until it was able to secure a license agreement sanctioned by the Final Decree of May 15, 1951 (R. 607). Some of the other defendant gypsum companies, including Ebsary, Newark and Certain-teed, also failed to pay royalties to USG under their unlawful licenses starting at approximately the same time (R. 607).

posed judgment (R. 157-166). Article VII of the Government's proposed judgment sought cancellation of the license agreements (R. 163; Devel., p. 4).[8]

Subject to its objection to the entry of any judgment for the plaintiff (1950 R. 163), USG filed proposed findings and conclusions (R. 188). Article IV of USG's proposed judgment read as follows (R. 192, 393; Devel., p. 4):

> "1. The minimum price provisions of the Patent Licenses are hereby declared to be illegal.
>
> "2. Each of the Patent Licenses is hereby cancelled and terminated."

At the hearing on the decree proposals, the Government proposed to amend that portion of its proposed decree cancelling the license agreements, by substituting a declaration that the patent license agreements were "unlawful under the anti-trust laws and illegal, null and void" (R. 406-407).

After the hearing, memoranda were filed by various of the parties. In their memoranda, National and Newark also specifically proposed that the decree adjudicate the license agreements "illegal, null and void" (R. 426, 427, 428, 432).

In its reply memorandum, filed July 25, 1949, USG strenuously opposed these proposals, stating in its reply memorandum (R. 437):

> "The defendant licensees can have no purpose in making the suggestion that each patent license be ad-

---

8 "Devel." is a short designation for a separate document entitled, "Development of Final Decree and Position of Parties with Respect Thereto," served with this Brief, and made available by National to the Court at the oral argument. For a description of its contents, see note 10, page 13, *infra*.

judged illegal except to obtain some advantage with respect to the use of the patents. *They apparently believe it will relieve them from accounting for anything done either before or after the Supreme Court's decision* [*of March 8, 1948*]." (emphasis added)[9]

This opposition of USG was obviously grounded on USG's justifiable fear that the adjudication of the license agreement as "illegal, null and void" would relieve its licensees from accounting to USG for the use of its patents during the period prior to the entry of the decree by the District Court.

4. *The Decree of November 7, 1949.* After consideration of these representations the District Court entered a Final Decree (R. 471). Article II of that decree enumerated all the patent license agreements, including the 1929 agreement between USG and National, subject to the decree (R. 473).

Article IV of the decree provided that (R. 475; Devel., p. 5):

---

9 The reply memorandum of USG also stated (R. 439-440):

"• • • Newark seeks a provision that each of the license agreements be adjudged unlawful under the anti-trust laws and illegal, null and void, which not only goes beyond the scope of the determination by this court upon the motion for summary judgment but has for its purpose an attempt to be relieved from accounting, as stated before in this memorandum."

Nevertheless, despite these statements in its Reply Memorandum, USG has contended in these proceedings that the licensees, speaking through Mr. Dallstream, counsel for Celotex, had disclaimed that their seeking an adjudication that the patent license agreements are illegal, null and void was intended to avoid paying royalties for the pre-decree period. This contention by USG is discussed more fully at pp. 49-50 *infra*.

"Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void."

Article VI of the 1949 Decree directed USG, within 90 days of its effective date, to grant upon application a non-exclusive license under USG's then owned gypsum board patents at a royalty not in excess of the royalty fixed in the license agreements declared illegal, null and void (R. 476; Devel., p. 9).

Article VIII of the decree provided that USG could satisfy the obligation thus imposed upon it by Article VI through the tender of a license agreement containing provisions set forth in forms of agreement "ordered filed herein" and "hereby approved" (R. 476; Devel., p. 9).

As Article VIII indicated, USG had drawn up new forms of license agreements "in connection with consideration of a form of a decree" (R. 813) and as an incident of the adoption of that decree. USG never made a commercial tender of this form of license agreement to any of its licensees. The proposed license under Article VIII could not have become effective until the entry of a final decree (Finding 22, R. 1150). Such a decree, as will be shown, was not entered until May 15, 1951 (R. 562). Operation of the 1949 Decree was stayed by appeal brought by USG and two of its officers to this Court (R. 504). Consequently, USG never offered a new and innocent license agreement to its licensees until May 15, 1951.

5. *The second appeal to this Court.* The basis of USG's appeal was that on the record upon which the District Court granted the Government's motion for summary judgment there was a substantial controversy as to material facts on the issue of defendants' violation of the

Sherman Act and therefore the District Court erred in entering judgment (R. 505-508). This Court dismissed USG's appeal on May 29, 1950 (339 U. S. 959).

The Government also appealed on the ground that the Decree of November 7, 1949 failed to afford adequate relief against the defendants (R. 509-511). On May 29, 1950, the same day on which it dismissed USG's appeal, this Court noted probable jurisdiction (339 U. S. 960), and at the same time enjoined the defendants, pending further order from the Court, from

> "(1) enforcing in any manner whatsoever the provisions of their current license agreements fixing, maintaining, or stabilizing prices of gypsum board or the terms and conditions of sale thereof, and (2) from entering into or performing any agreement or understanding in restraint of trade and commerce in gypsum board among the several states in the eastern territory of the United States by license agreements to fix, maintain or stabilize prices of gypsum board or by license or other concerted action arranging the terms and conditions of sale thereof" (339 U. S. 960).

6. *The second decision of this Court.* The Government's appeal sought to broaden and enlarge the District Court's decree. Its purpose was to terminate and dissipate the far-reaching effects of monopolization and restraint of trade in the gypsum industry which had been achieved through the illegal license agreements between USG and its licensees. The issues raised by the Government in its appeal are summarized by this Court at 340 U. S. 76, 82.

In its decision (340 U. S. 76), this Court reviewed the procedures below and upheld the summary judgment. It found the violations to consist of monopolization and ac-

tion "in concert to restrain commerce in an entire industry under patent licenses in order to organize the industry and stabilize prices" (340 U. S. 76, 84).

In discussing the duty of the District Court in formulating a decree, this Court said (340 U. S. 76, 88-89):

> "A trial court upon a finding of a conspiracy in restraint of trade and a monopoly has the duty to compel action by the conspirators that will, so far as practicable, cure the ill effects of the illegal conduct, and assure the public freedom from its continuance. Such action is not limited to prohibition of the proven means by which the evil was accomplished, but may range broadly through practices connected with acts actually found to be illegal. * * * The conspirators should, so far as practicable, be denied future benefits from their forbidden conduct."

This Court went on to say (340 U. S. 76, 89):

> "In resolving doubts as to the desirability of including provisions designed to restore future freedom of trade, courts should give weight to the fact of conviction as well as the circumstances under which the illegal acts occur."

The Court then considered and granted most of the Government's requests for expansion of the District Court's decree.

7. *The Final Decree of May 15, 1951.* Pursuant to this Court's second decision, the District Court entered its Final Decree on May 15, 1951 (R. 562).

Article II of that decree enumerated all the license agreements subject to the decree, including those between USG and National, and added "any supplement or amend-

ment to any of said patent license agreements" (R. 564-566; Devel., p. 3).[10]

Article IV, in language identical with that found in Article IV of the November 7, 1949 Decree, adjudged these agreements "unlawful under the anti-trust laws of the United States and illegal, null and void" (R. 567; Devel., p. 5).

Article V enjoined defendants from entering into or performing any agreement to fix, maintain or stabilize "by patent license agreements" or other means, prices, terms or conditions of sale of gypsum products and from engaging in a variety of practices affecting prices or distribution of gypsum products (R. 567; Devel., p. 7).

Article VI provided for compulsory licensing at reasonable, non-discriminatory royalties (R. 567-570).

Finally, Article X provided:

> "Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith". (R. 571-572; Devel., p. 13)

---

10 "Devel." (See note 8, p. 8 *supra*) presents in columnar form the development of the Final Decree and the positions of the parties with respect thereto as follows: (1) Plaintiff's Original Proposed Decree Submitted on Granting of Motion For Summary Judgment; (2) U. S. Gypsum's Proposed Decree Submitted on Granting of Motion for Summary Judgment; (3) District Court Decree, Nov. 7, 1949; (4) Plaintiff's Proposed Decree on Appeal from District Court Decree; and (5) Final Decree, May 15, 1951.

A comparison of the Decree of May 15, 1951 with the 1949 Decree shows that the 1949 Decree was considerably expanded in almost every respect (see Devel.):

1. The 1949 Decree was limited to gypsum board. The 1951 Decree was expanded to include gypsum products. (Compare 1949 Decree Art. II(3) *with* 1951 Decree Art. II (2 and 3), Devel., p. 3.)

2. The 1951 Decree extended the injunctive provisions of the 1949 Decree to include the entire United States instead of merely the eastern territory, and further enjoined, in addition to the price-fixing practices enjoined in the 1949 Decree, the exclusion of jobbers, the standardization of industry sales practices and a delivered price-basing point system. (Compare 1949 Decree Art. V *with* 1951 Decree Art. V, Devel., p. 7.)

3. Major changes were made in the scope, form and time of the compulsory licensing provisions. The 1949 Decree provided for compulsory licensing only of the patents licensed by USG to the defendant licensees, at a royalty not to exceed the royalty provided in the illegal agreements. Moreover, the license was available only to applicants who applied within 90 days from the Decree and who agreed to give USG price and quantity figures. The expanded 1951 Decree provided for compulsory licensing of *all* USG patents relating to gypsum board then owned or acquired within 5 years from the Decree, with no time limit for application; and gave the applicant the right to apply to the court for a determination of a reasonable royalty. The requirement that the licensee supply USG with price and quantity figures was deleted and instead USG was given merely a right of inspection by an independent auditor solely to determine the amount of

royalties due. (Compare 1949 Decree Art. II(2) *with* 1951 Decree Art. II(4), Devel., p. 3. Compare 1949 Decree Art. VI *with* 1951 Decree Art. VI, Devel., pp. 9, 11. Compare 1949 Decree Art. VIII at Devel., p. 9, and license provisions at R. 483, 489, 494 *with* 1951 Decree Art. VI(2)(d) at Devel., p. 9.) Thus, only by May 15, 1951 did the Roos Patent become available for licensing to the public under reasonable royalties and devoid of restrictive provisions.

B. *Events since the entry of the Final Decree of May 15, 1951*

Soon after entry of the Final Decree, National executed a new agreement with USG, made retroactive to May 15, 1951, pursuant to which it obtained a license under the Roos Patent (R. 607). So did Certain-teed (R. 607). Thereafter, both these companies paid royalties to October 7, 1952, the expiration date of the patent.

These new agreements did not apply to the period prior to the May 15, 1951 Decree (p. 607). Ebsary and Newark, however, did not obtain a license agreement after the Final Decree of May 15, 1951 and did not make further payments to USG (R. 607).

C. *The USG suits for royalties under the unlawful license agreements and under alternative theories*

1. *USG's complaint against National in the Northern District of Iowa.* On January 28, 1953, USG commenced its action in the U. S. District Court for the Northern District of Iowa against National, claiming royalties under the unlawful license agreement of 1929 in the amount of $1,600,000. The complaint is in five counts, each of which seeks recovery for the use of the Roos Patent for the period February 1, 1948 to May 15, 1951 during which

National did not pay royalties. Each seeks recovery in the identical amount (R. 614-622; App. A).

Count I is based entirely on the unlawful license, and claims royalties in the amount of $1,600,000 (R. 614-616, 769-771; App. A).[11]

In Count II, USG alleges that, on February 1, 1948, the parties to the license agreed to discontinue compliance with its provisions except that, beginning February 1, 1948, National would account for and pay to USG under the licenses a "royalty of one per cent (1%) of National's selling price" on gypsum board actually manufactured by National and embodying or making use of the inventions disclosed in the Roos Patent. The amount due under this agreement is said to be $1,600,000 (R. 616-617, 771-772; App. A).

In Count III of its complaint, USG alleges that on or about February 1, 1948, National repudiated the license agreement of 1929, that National thereafter made use of the Roos Patent and that in consideration of such use National promised but failed to pay USG the reasonable value of the use of USG's patent in the amount of $1,600,000 (R. 618-619, 772; App. A).

Count III has sometimes been characterized by counsel for USG as a *"quantum meruit"* count (compare USG Brief pp. 17-18 *with* Jurisdictional Statement p. 13 and R. 1188). It was characterized by the Court below as an

---

11 USG before this Court now explains that it did not attempt to enforce the royalty provisions of the patent license agreement since it claimed compensation only on patented board (see USG Br. 14, note), whereas, in past, under the agreement, it had insisted that royalties be assessed on unpatented board as well. Despite this waiver of royalties on unpatented board it pleaded National's obligation to pay royalties under the illegal agreements, as a glance at its Complaint will disclose (see App. A).

"indebitatus assumpsit" count (Finding 28, R. 1153; Conclusion 14, R. 1157).

In Count IV, USG alleges that on January 28, 1953, the defendant, National, being indebted to USG in the amount of $1,600,000 for the use of the Roos Patent between February 1, 1948 and May 15, 1951, promised to pay USG but has not done so (R. 619-620, 772-773; App. A).

In Count V of its complaint, USG charges infringement by National of the Roos Patent for the period February 1, 1948 to May 15, 1951. USG alleges that by reason of that infringement, it has been damaged in the sum of $1,600,000 (R. 620-621; App. A).

2. *Subsequent proceedings connected with the Iowa Action.* National filed its answer and amended answer to USG's complaint and amended complaint in the United States District Court for the Northern District of Iowa and moved for a stay of further proceedings until the determination of the issues raised by its petition, hereinafter described in the District Court for the District of Columbia (R. 710-725). On July 13, 1953 the District Court for the Northern District of Iowa granted the motion for a stay (R. 766).

3. *Other actions brought by USG.* As already noted, USG also asserted its illegal patent license agreements against other licensees. These actions were brought in various federal courts as follows:

On February 27, 1953, in the United States District Court for the Southern District of New York against Ebsary (R. 622); on February 27, 1953, in the United States District Court for the District of New Jersey against Newark (R. 634); on or about March 18, 1953, in

the United States District Court for the Northern District of Iowa against Certain-teed (R. 646).[12] Neither Newark nor Ebsary entered into license agreements with USG after May 15, 1951 and, consequently, the actions brought against these two companies, unlike those brought against National and Certain-teed which are limited to the pre-decree period, plead liability for non-payment of royalties until the dates of the filing of the complaints (R. 632, 644-645).

D. *Petitions for orders, modifications or directions for the enforcement, construction or carrying out of the Final Decree of May 15, 1951*

As already noticed, National filed a petition in the District Court of the District of Columbia on March 25, 1953 seeking enforcement, implementation and modification of that Court's Final Decree of May 15, 1951 (R. 604). Petitions similar to National's were filed in that Court by Certain-teed, Newark and Ebsary on April 22, 1953, May 15, 1953 and June 3, 1953, respectively (R. 657, 666, 669).

On June 30, 1953, the United States of America also filed a petition (R. 739). It was entitled "Petition of United States for Orders or Directions for the Construction, Carrying Out or Enforcement of the Final Decree of May 15, 1951." In this Petition, the Government asked the District of Columbia Court to

> "enjoin USG from asserting any claim, and from instituting, threatening to institute, or maintaining any

---

12 Beginning in or about July 1952 USG asserted royalty claims against Celotex for the period February 1, 1948 to May 15, 1951, and on July 25 and September 26, 1952 it asserted an infringement claim against the Kaiser Company in which it said that it "reserved all rights of recovery for any infringement prior to" May 15, 1951 (R. 610, 655-657, 786).

action, based, in whole or in part on any of the license agreements adjudged illegal, null and void by the final decree of this Court entered on May 15, 1951, or on any provision thereof" (R. 740-741).

The Government took "no position" as to whether USG's claims other than those expressly based on the unlawful licenses were, or should have been, barred by the decree of the Court below (R. 816). USG construes the silence of the United States as to the counts of its Iowa complaint to mean that the Government agrees with its contentions (USG Br. 31, 43, 44, 69). The United States' Brief quoted immediately above shows that this assertion does violence to the explicit statement made by the Government.

E. *Further proceedings in the District Court*

On June 9, 1953, a pre-hearing conference was had before the District Court (R. 673). Briefs and answers were filed (R. 774-816) and on January 12 and 13, 1954, the matter was argued (R. 819-974). On July 6, 1954 the Court issued its opinion, hereinafter described (R. 975).

On December 4, 1954, the District Court entered its findings of fact and conclusions of law consonant with its opinion (R. 1144-1158). On the same day it entered its decree modifying the Final Decree of May 15, 1951 by adding to Article V thereof a paragraph reading:

"Defendant United States Gypsum Company is hereby ordered and directed to discontinue and to dismiss, with prejudice to United States Gypsum Company, its pending actions as follows: against National Gypsum Company, in the United States District Court for the Northern District of Iowa; against Certain-teed Products Corporation, in the same District Court; against Newark Plaster Company, in the United States District Court for the District of New Jersey; and against Ebsary Gypsum Company, Inc., in the United States

District Court for the Southern District of New York" (R. 1159).

Motion for a new trial was made (R. 1160), briefed (R. 1163-1214), argued (R. 1214-1335), and denied (R. 1335-1337).

F. *The District Court's Opinion, Findings and Conclusions*

Because USG has misconstrued the District Court's ruling in several important respects, a full statement of its opinion, findings and conclusions is made.

The District Court held it had jurisdiction to pass on the issues raised by petitioners on these grounds:

1. Article X of the Final Decree expressly gives the Court power to construe and enforce its Decree (Conclusion 2, R. 1155).

2. The Court has the inherent power of a court of equity to compel obedience to its decree (Conclusion 3, R. 1155).

3. The Court has power to modify its decree to effectuate its basic purposes (Conclusion 10, R. 1157).

4. The Court has power to prevent multiplicity of actions. These actions are the four suits by USG, and also claims against Celotex and Kaiser; each involves the meaning of the Final Decree, and affects the Final Decree's effectiveness (Conclusion 5, R. 1155).

The District Court also held that petitioners had standing under the decree, particularly under Article X, to activate the Court's jurisdiction (Conclusion 1, R. 1155).

On the merits, the Court barred prosecution of the first two counts of USG's suits because they "clearly violate

the express provisions of Article IV of the final decree" (Conclusion 11, R. 1156). The third count was barred, because it was "but a left-handed, indirect method for recovering the royalties provided in the illegal license agreements" (Conclusion 14, R. 1157).

The District Court held the Decree should be modified to bar USG's infringement counts "both because of the practical and legal situation in this case, and, also, the teaching in the *Hartford-Empire* case" (Conclusion 16, R. 1158). In respect of the "practical situation" it noticed this Court's sweeping findings concerning USG's use of its patents to control the gypsum industry (Finding 5, R. 1145), and the broad range of relief which this Court felt it was necessary for the lower court to grant (340 U. S. 76, 88) (R. 1003-1006). It observed that this Court's rulings as to illegality of the license agreements created for USG's licensees the "perilous" choice of either continuing payments under the illegal agreement or refusing to pay (Finding 7, R. 1145). The Court also noticed that the manufacturing plants of the licensees had been organized "for use of these patent-covered methods" (Finding 6, R. 1145).

The District Court then elected to pass on the question of whether USG had purged itself of its patent misuse, as shown by the record in this case, rather than to let such issue be determined by the various District Courts in which it had already been, or would be, raised. It found that, as a matter of law, USG could point to nothing which would prove purge prior to May 15, 1951, and therefore all USG claims should be barred on the ground of unpurged misuse (Conclusions 11, 12, R. 1157).

The District Court then made an additional independent ruling on the merits. Because USG's suits included claims based on the license agreements expressly held illegal by

this Court and by the District Court's Final Decree (340 U. S. 76; R. 567), the Court below found that such a claim was a *fresh misuse,* which not only barred all claims for the period before the 1951 Decree, but also barred the post-decree claims against Newark and Ebsary (Conclusion 13, R. 1157).

Contrary to USG's description (USG Br. 19), the Court's finding of *fresh misuse* was independent of its finding of *unpurged misuse.*

USG is also in error when it asserts repeatedly (USG Br. 21, 33, 37) that the District Court took jurisdiction to determine the issue of purge because of its view that USG's suits constituted fresh or continuing misuse. The District Court assumed jurisdiction because of the factual situation presented by the *multiple* USG suits and claims raising similar issues (Conclusion 5, R. 1156).

USG is again wrong in indicating that the District Court barred its so-called *"quantum meruit"* claim solely because of USG's suits (USG Br. 19). The District Court barred the *quantum meruit* claim specifically because of unpurged misuse (Conclusions 11, 12, R. 1157), not because of its fresh misuse holding (Conclusions 13, 15, R. 1157, 1158).

Judge Cole dissented from the decision, findings and conclusions on the ground that only the United States could invoke the jurisdiction of the court; that since its petition was limited to the two contract counts, there would remain for adjudication in the private suits the remaining counts; and, consequently, that the court should not issue its injunction (R. 1015).

G. *The Appeal to this Court*

On USG's appeal to this Court, from the December 4, 1954 order of the District Court, National, Certain-teed

and the United States of America appear as appellees. Newark and Ebsary, while the present appeal was pending, settled the infringement action brought against them (USG Br. 3, n.). Counsel for National have been informed by counsel for Newark (a) that Newark was guarantor of patent liabilities of Ebsary and that, after the decision in the Court below, the assets of Newark were acquired by Allied Chemical and Dye Corporation, and the assets of Ebsary were acquired by the Rubberoid Corporation, and (b) that the settlements of the infringement action were made in connection with the sale of such assets.

Summary of Argument

I

The District Court had jurisdiction to enforce, construe and modify its Final Decree of May 15, 1951 coming from (a) the "All Writs" provision of the Judicial Code (28 U. S. C. 1651(a)), (b) the reservation of jurisdiction in Article X of the Final Decree, and (c) its inherent equity powers. USG's action in the different federal courts in at least the first two counts flouted the Court's decree of May 15, 1951, and in the other three attempted to circumvent it. The District Court had ample power to construe its decree, to compel compliance with it, and to protect it. Jurisdiction is not ousted by casuistic differentiations of the forms of action.

It also had the power to modify the decree in order to effectuate its basic purposes, e.g., *Chrysler Corporation* v. *United States,* 316 U. S. 556, 562 (1942). Its flexible equity powers were sufficient to enable the Court to apply appropriate relief to new circumstances.

The Court below, in exercising its power to modify its decree, did no more than to give effect to the purposes of the Decree of May 15, 1951, and to apply them to new circumstances. This being so, it is a matter of indifference whether or not the modification can be construed to be an "enlargement" of the decree, *Hughes* v. *United States,* 342 U. S. 353, 357 (1952).

Only the Court below had available to it the power to sterilize against a further multiplicity of actions which was threatened by USG's pending suits and notices of infringement.

The United States of America, National and all other parties in the District Court, had standing to activate the Court's jurisdiction. All were parties to the decree and jurisdiction had been reserved for the express purpose "of enabling any of the parties * * * to apply to this Court at any time for * * * orders, modifications" etc. (Art. X, p. 13, *supra*). Cases having to do with the standing of strangers to a decree on which appellant relies are irrelevant. Standing to petition below is governed by *Missouri-Kansas Pipe Line Co.* v. *United States,* 312 U. S. 502 (1941).

It is also a matter of indifference in respect of the power of the Court below that the United States sought relief concerning only the first two counts of USG's Iowa complaint. Obviously, once the jurisdiction of the Court has been activated it is not within the control of the parties to restrict the Court's exercise of its power in modifying the decree.

II

The District Court appropriately exercised its power to interpret and enforce its decree by enjoining USG from prosecuting the Iowa action. Counts I, II and III were properly enjoined because their prosecution violated Article IV of the Final Decree of May 15, 1951 which declared that the patent licenses and all supplements and amendments thereto on which these counts were founded were "illegal, null and void."

The declaration of illegality in Article IV of the 1951 Final Decree not only barred Counts I, II and III, but also barred all other means of enforcing USG's misused patents. This conclusion must be drawn from the fair intendment of the entire decree in the antitrust proceeding. The Government's amended complaint contained a prayer to enjoin USG from prosecution of infringement suits or "otherwise" to collect royalties on its misused patents. The prayer was never withdrawn but, because no infringement suits were brought or threatened by USG at the time of entry of the Final Decree, it was not thought necessary then to enjoin infringements. It was thought sufficient to adjudicate the license agreements to be nullities.

USG had sought a less restrictive declaration providing that the price-fixing provisions be declared illegal and the agreements cancelled. It strenuously resisted the proposal by the Government and the other appellees in this case that the agreements be declared illegal in their entirety. The adjucation of illegality, found in Article IV of the Final Decree, would be rendered nugatory if USG could now recover, on some other legal theory, the same amounts claimed to be due to it under the unlawful licenses.

III

The District Court acted within its discretion in modifying the Decree to bar USG's Counts IV (*quantum meruit*) and V (infringement).

A *quantum meruit* claim does not lie for use of a patent. In this case it cannot lie for the additional reason that the underlying transaction was wholly illegal.

The similarity of the facts in this case to the *Hartford-Empire* (323 U. S. 386) and *National Lead* (332 U. S. 319) cases justifies modification of the decree to enjoin USG's infringement claims for the period preceding the 1951 Decree. Additional facts—the use of infringement suits by USG to organize the industry, the unavailability of an unrestricted license, at a reasonable royalty, under USG's misused patent, until the 1951 Decree, the "perilous" position of the licensees, and USG's flouting of Article IV of the decree—also support this remedy.

If USG had brought its infringement suits prior to the 1951 Decree, the remedy of injunction would clearly have been appropriate. USG cannot prevent this appropriate modification by having delayed its infringement claims until years after entry of the 1951 Decree.

IV

The District Court properly enjoined USG from enforcing its patents because of unpurged misuse. It correctly ruled that as a matter of law USG could not show that it had purged itself prior to the entry of the 1951 Decree. This Court made findings of misuse in the present proceeding as sweeping as has ever been made in any case. USG

could not recover for its misused patents unless it showed that purge had taken place prior to the entry of the Final Decree of May 15, 1951, since the asserted liability of National is only for the period up to that date.

That burden USG utterly failed to meet. It asserted only five specific claims of purge, all of which the Court below correctly found were insufficient in law to constitute a purge.

USG, having failed below to offer proof of purge sufficient in law—or even to state what that proof would be—had no right to a hearing for the purpose of taking testimony concerning purge. USG had ample opportunity in the Court below to assign other and different bases for its claim of purge, and, having failed to do so, it would be a waste of time to conduct a hearing on belated generalized assertions that purge can be proved. The processes of the Court are not so to be trifled with and a remand from this Court to take additional testimony could accomplish nothing more than further to prolong a proceeding which has been buffeted between this and the Court below since 1940. USG's claim to purge was disposed of on the record of the Court below. The numerous authorities denying a hearing where no genuine specific issue of material fact is alleged should here be controlling.

V

The District Court correctly ruled that USG's suits constituted a fresh misuse, because the suits sought to enforce the illegal license agreements.

Title 35, Section 271(d) does not, contrary to USG's contention, preclude a holding that a suit on an illegal license

agreement is a patent misuse. Rule 8 of the Rules of Civil Procedure likewise does not, contrary to USG's contention, preclude such a holding.

I

The District Court had jurisdiction to enforce, construe and modify the Final Decree of May 15, 1951.

The sources of power for the modification of its decree by the three-judge court are so fundamental that extended discussion of them is unnecessary. The fountainhead of power is the "All Writs" provision of the Judicial Code, 28 U. S. C., Section 1651(a).

A more direct source of power is the reservation of jurisdiction over the parties "for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith," found in Article X of the 1951 Final Decree (R. 571-2, 604; Devel., p. 13).

A third source is the power inhering in a court of equity to modify its decree in order to effectuate its basic purposes. *United States* v. *Swift & Co.*, 286 U. S. 106, 114 (1932).

When USG brought its action against National in the District Court in Iowa, it flouted boldly the Decrees of November 7, 1949 and May 15, 1951: in Counts I and II, by seeking to enforce the illegal license agreement; and in the other three counts of its complaint by seeking the same recovery under alternative legal theories.

A. *The District Court had the power to interpret its own decree, to determine whether these claims would impair the integrity of its decree, and to prevent possible nullification of it in another forum.*

Judge Prettyman writing for the Court of Appeals for the District of Columbia Circuit said in *Land* v. *Dollar*, 190 F. 2d 366 (D. C. Cir. 1951), at page 373 (cert. dismissed on motion, 344 U. S. 806):

> "• • • to declare that one court can nullify the final decrees of another court which had jurisdiction • • • would mean chaos and the complete collapse of every semblance of orderly, judicial process, a consummation to the irreparable damage of the public interest."

Similarly, Judge Garrecht writing for the Court of Appeals for the Ninth Circuit in *Holmes* v. *Rowe*, 97 F. 2d 537, 539 (9th Cir. 1938), has asserted a District Court's complete power to protect its judgment or decree in these words:

> "A review of the decisions discloses that a Federal District Court, once having obtained jurisdiction of a controversy, and having rendered a decision in the matter, has complete power to protect the judgment or decree which it has rendered, and may go so far as to enjoin an action entertained in the state court by a litigant, involving the same subject-matter, when such action may in any way interfere with, or nullify the effect of said judicial determination." [13]

---

13 Decisions in this and the lower federal courts to the same effect are numerous and, among others, include the following:

Kerotest Mfg. Co. v. *C-O-Two Co.*, 342 U. S. 180, 183-184 (1952);

Toledo Scale Co. v. *Computing Scale Co.*, 261 U. S. 399, 425 (1923);

Crosley Corp. v. *Hazeltine Corp.*, 122 F. 2d 925 (3rd Cir. 1941); *cert. denied*, 315 U. S. 813 (1942);

Guaranty Trust Co. v. *Broadway & 7th Avenue R. Co.*, 43 F. 2d 130 (S. D. N. Y. 1930);

Swift v. *Black Panther Oil & Gas Co.*, 244 Fed. 20 (8th Cir. 1917).

See also:

Harkrader v. *Wadley*, 172 U. S. 148, 163-164 (1898);

In re Georgia Power Co., 89 F. 2d 218, 221 (5th Cir. 1937), *cert. denied* 302 U. S. 692 (1937).

Not only does the Court have the power to protect its decree, but it has been held that the Court is under a duty to exercise the power. E.g., *Crosley Corp.* v. *Hazeltine Corp.*, 122 F. 2d 925 (3rd Cir. 1941), *cert. denied* 315 U. S. 813 (1942); *Swift* v. *Black Panther Oil & Gas Co.*, 244 Fed. 20, 27-28 (8th Cir. 1917); *Missouri Pac. Ry. Co.* v. *Jones*, 170 Fed. 124, 126 (W. D. Mo. 1909), appeal dismissed, 178 Fed. 1003 (8th Cir. 1910); *Iron Mountain R. Co.* v. *Memphis*, 96 Fed. 113 (6th Cir. 1899).

The fact, as urged by appellant, that the Iowa Court might be equally free to construe the 1951 Final Decree (USG Br. 34) and that National in Iowa could have asserted the decree as a defense to the USG suit does not detract from the power of the District of Columbia three-judge court to compel obedience to its decree, or make the exercise of that power any less proper. *Kessler* v. *Eldred*, 206 U. S. 285 (1907); *Gunter* v. *Atlantic Coast Line R.R. Co.*, 200 U. S. 273, 292-293 (1906); cf. *Root* v. *Woolworth*, 150 U. S. 401 (1893); *United States* v. *Reading Co.*, 300 Fed. 477 (E. D. Pa. 1924); *Wilson* v. *Alexander*, 276 Fed. 875, 881 (5th Cir. 1921).

The fact that the Court below was by its injunction compelling obedience to the *declaratory* provisions of Article IV of its decree in no way subtracted from its power to issue the injunction. *Dugas* v. *American Surety Co.*, 300 U. S. 414, 427 (1937). In *Local Loan Co.* v. *Hunt*, 292 U. S. 234 (1934), this Court said at 239-240:

> "That a federal court of equity has jurisdiction of a bill ancillary to an original case or proceeding in the same court, whether at law or in equity, to secure or preserve the fruits and advantages of a judgment or decree entered therein, is well settled."

We do not press the point that the three-judge court for the District of Columbia had "some paramount jurisdiction over the controversy arising out of the corporate appellees' use of USG patents" (USG Br. 32). We do urge that a court with supervisory powers over its own decree need not sit idly by when the decretal provisions are being subverted through a defendant's use of the process of another court. This distinction highlights the irrelevancy of *Aluminum Co.* v. *United States*, 302 U. S. 230, 232 (1937) and other *res judicata* cases relied upon by appellant at pages 32-33 of its brief.[14] We are here concerned with the power of the *first* court, and not that of the *second*, to act.

---

14 *Aluminum Co.* v. *United States*, 302 U. S. 230 (1937) (Cited USG Br. 32) held no more than that a second prosecution under the antitrust laws is not barred by an earlier one where the two suits were "dissimilar in respect of parties defendant, subject matter, issues and relief sought" (at p. 232).

The *Northern Securities* cases, *Northern Securities Company* v. *United States*, 193 U. S. 197 (1904), *Harriman* v. *Northern Securities Company*, 197 U. S. 244 (1905) constituted merely a ruling on the merits that the action complained of was consistent with the prior decree. No question was there raised as to whether, and under what circumstances, one federal court should construe the decree of another.

In *Standard Oil Co.* v. *Markam*, 64 F. Supp. 656 (S.D.N.Y. 1945), modified and aff'd sub. nom., *Standard Oil Co.* v. *Clark*, 163 F. 2d 917 (2d Cir. 1947), *cert. denied*, 333 U. S. 873 (1948) the Court of Appeals for the Second Circuit decided that on the special facts of that case the New York Court (the second court) could hold on to jurisdiction since it "was familiar with all details of this complicated question, which had never been before the

The first two counts of the Iowa complaint are admittedly on contract; the rest raise issues in *quantum meruit*, infringement and, disputedly, in *indebitatus assumpsit*. The power of the District Court reaches not only to the direct attack on its decree found in the first two counts of the Iowa complaint, but also to determine whether theories of cause of action obviously designed to bring about a recovery of the precise contract amount constitute a circumvention of the decree. Certainly, in the present era of one form of action, jurisdiction is not to be granted or denied merely on the basis of casuistic differentiations in the forms of action when the purposes of all the actions are identical. (See USG Br. 31.)

B. *The District Court had power to modify its decree in order to effectuate its basic purposes.*

If the injunction of the District Court is construed as more than a mere "construction and carrying out of" the Decree of May 15, 1951, and designed "for the enforcement of compliance therewith" (Art. X of Decree, R. 571), it was, nonetheless, within the Court's power to grant. The District Court has broad power to modify and reshape its injunction in order to effectuate "the basic purposes of the original" decree. *United States* v. *Swift & Co.*, 286 U. S. 106 (1932), *Chrysler Corp.* v. *United States*, 316 U. S. 556, 562 (1942).

The power to modify was reserved by Article X of the Final Decree. It also inheres in a court of equity irrespective of the terms of Article X.

---

court in New Jersey in its present and true setting" (163 F. 2d at p. 934). That case casts no doubt on the general proposition here urged—that the court which makes the decree is the best qualified to construe it and decide whether any implementation is required.

Appellant, however, urges that Article X is not a sufficient reservation of jurisdiction to enable the District Court to modify the decree (USG Br. 28-30). Article X is set forth in its entirety at page 13 above. Its language admits of no doubt. It enables any of the parties to apply to the Court at any time "for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith." USG urges—in spite of this clear statement—that this is not a reservation of the power "to modify." If a party may by the expressed language of the decree apply to the Court for a modification of the decree, how can it be argued that the Court has not reserved the power to modify it?

In *United States* v. *National Lead Co.*, 332 U. S. 319 (1947), a reservation of jurisdiction clause was virtually identical with that in the case at bar (332 U. S. at 334, note).[15] This Court indicated that the provision included the power to "modify" (332 U. S. at 351).

Even when the original decree has explicitly reserved the power to modify, the courts have not felt it necessary to rely particularly on that reservation. Thus, when in *Hughes* v. *United States*, 342 U. S. 353, 357 (1952), the Government sought relief on both the "provisions in the decree reserving jurisdiction to amend" and on "the inherent equity powers of the court" the Supreme Court simply said that it entertained "no doubt concerning the

---

15 "Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person or corporation that may hereafter become bound, in whole or in part, thereby to apply to the Court at any time for such further orders, modifications, vacations or directions as may be necessary or appropriate."

District Court's power." See also *Chrysler Corp.* v. *United States, supra,* 316 U. S. at page 567; *United States* v. *Swift & Co., supra,* 286 U. S. at page 114.

It is difficult to understand why *United States* v. *International Harvester Co.,* 274 U. S. 693 (1927) is cited by USG in support of its argument that an express reservation of power "to modify" is essential (USG Br. 29), for in that case, the ruling of this Court went to the merits and not to power. The modification sought was denied because the Court found that the basic purpose of the decree had been achieved and, therefore, amendment was neither necessary nor appropriate (274 U. S. at pp. 702-703).

Even were Article X of the decree not a sufficiently comprehensive reservation of jurisdiction to embrace the relief sought by National and granted by the Court below, it is clear that the Court would still have possessed the power to act as it did. As this Court said in *United States* v. *Swift & Co., supra,* 286 U. S. at page 114:

> "If the reservation [contained in Article X] had been omitted, power there still would be by force of principles inherent in the jurisdiction of the chancery."

The power to modify the decree to be sure is not an unlimited one as the Court below carefully recognized (Conclusion 10, R. 1157). The argument of USG (USG Br. 27-32), however, that the Court may not modify a decree to enlarge prohibitions but only to contract them would remove from courts of equity their important historic powers. This Court had occasion to say in *Hecht Co.* v. *Bowles,* 321 U. S. 321, 329 (1944):

> "The essence of equity jurisdiction has been the power of the Chancellor to do equity and to mould each decree to the necessities of the particular case. Flexibility rather than rigidity has distinguished it."

Throughout the years the prime characteristics of courts of equity have been their flexibility and ability to meet new circumstances as they arise and to apply to them appropriate relief. There is no support in the cases for the limitation USG seeks to impose on these equity powers. See *Root* v. *Woolworth*, 150 U. S. 401, 410-418 (1893) and *United States* v. *Swift & Co., supra*, 286 U. S. 106 at 114.

We shall show hereafter that the modification of the decree does no more than give effect to the Final Decree, applying its prohibitions to a new situation which would have been prohibited by the decree itself had the minds of the parties been addressed to it at the time of entry of the decree (pp. 48-51 *infra*). Consequently, we urge that the modification by the court below does not constitute an enlargement. We submit, however, that nothing hinges on this question since the court below had the power to do whatever was necessary to effectuate the basic purposes of the decree.

Chrysler, supra, 316 U. S. at 562, teaches that the applicable test to a change in a decree is not whether its scope is enlarged or contracted, but whether the change serves to effectuate the decree's basic purposes.[16]

---

16 Other authorities have reached a similar result. *Armstrong* v. *DeForest Radio Telephone & Telegraph Co.*, 10 F. 2d 727, 728 (2d Cir. 1926), *cert. denied*, 270 U. S. 663 (1926).

See also *S. C. Johnson & Son* v. *Johnson*, 175 F. 2d 176, 177 and note 3 (2d Cir. 1949), *cert. denied*, 338 U. S. 860 (1949), recognizing a broad power to modify and broaden an injunction, and citing *United States* v. *Swift & Co.*, 286 U. S. 106 (1932), and *Dugas* v. *American Surety Co.*, 300 U. S. 414 (1937). And see *United States* v. *Western Pa. Sand and Gravel Assn.*, 114 F. Supp. 158 (W. D. Pa. 1953), in which the Court held, under 28 U. S. C., §1651(a), that the Government was entitled to an injunction restraining the dissolution of an antitrust defendant which had previously entered into a consent decree. The court found that the defendant's threat to dissolve itself would, if carried out, frustrate the decree previously entered. To avoid such frustration, the court granted the restraining order sought by the Government.

If a "change in circumstances" need be shown in order to justify a modification of the Decree, it is apparent that that test is met by the circumstance that since the entry of the Final Decree USG has threatened and brought infringement suits. At the time of entry of the Final Decree of May 15, 1951 USG had neither threatened nor brought infringement suits. Consequently, as the Government said in its supplemental brief in the *Hughes* case, *supra* (Brief of the United States, p. 27):

> "If changed circumstances must be shown in a case such as this, that requisite has been supplied by [USG's] course of conduct since the entry of the decree."

This is much more clearly true in this case than it was in the *Hughes* case itself.

In any event, there is real question whether, in a case such as this, in which a broadening of the decree is sought, changed circumstances must, in fact, be shown. This Court has never applied that rule to a case in which a modification of the decree is sought in order to effectuate its basic purpose by expanding its scope. Instead, this Court has applied the test announced in *Chrysler, supra,* page 562—"whether the change served to effectuate or to thwart the basic purpose of the original . . . decree."

C. *The District Court had the power to enjoin prosecution of USG's actions in other Federal Courts in order to avoid a multiplicity of actions.*

The Court below invoked "multiplicity of actions" as another ground for jurisdiction. It relied on the bringing in different courts[17] of "the four present suits by USG"

---

17 It is of no consequence that in the suit against Newark in the District of New Jersey, and that against Ebsary in the Southern District of New York, issue had not been joined (USG Br. 34). The matters were pending when the petitions were brought.

as well as the claims against Celotex and Kaiser (Conclusion 5, R. 1155). It found that the prevention of a multiplicity of actions is a "long established basis of equity jurisdiction" (R. 987).

A wise judicial administration generally counsels centralization of litigation in one Court. The wisdom of the Court's ruling is clear on the facts of the instant proceeding. If the Court had not enjoined the action in other courts, different judges in different districts might have had before them identical issues all of which would be argued by reference to the record and decree of the District of Columbia Court. Even were one defendant in one of the separate actions to prevail by reliance on the Final Decree, or because of USG's continued patent misuse, principles of *res adjudicata* would not bar USG from bringing infringement suits against other and different licensees in other courts in its attempts to achieve some benefit from its misused patents. The District Court for the District of Columbia was the only forum that had available to it the power to sterilize against a future proliferation of actions. The power to prevent a multiplicity of actions has been sustained by this Court. *E.g., Steelman* v. *All Continent Corp.*, 301 U. S. 278, 285, 286-287, 289-290 (1937).[18]

In the situation at bar, the District Court, having all interested parties before it, was the appropriate court to decide in the light of the record which it had itself made

---

18 That the *Steelman* case is not limited to bankruptcy proceedings and applies as well to equity courts generally appears not only from the *Steelman* opinion itself but from the interpretation given it by the Third Circuit in *Crosley Corp.* v. *Hazeltine Corp.*, 122 F. 2d 925, 928-929 (3d Cir., 1941), *cert. denied*, 315 U. S. 813 (1942). See also Chafee, *Bills of Peace with Multiple Parties*, 45 Harv. L. Rev. 1297 (1932).

and of the decree which it had itself framed, the "purge" issues common to USG's suits.

USG acknowledges that avoiding a multiplicity of suits and conflicting judgments of several Courts are traditional grounds for equitable jurisdiction. It does not contest either of them (USG Br. 33). It asserts, however, that the factual basis for action to avoid multiplicity of suits is not present *(id.)*, pointing to the fact that two of its suits, against National and Certain-teed, are in the Iowa Court, and that the Newark and Ebsary suits in other jurisdictions have since been settled and dismissed (USG Br. 33-34). This analysis ignores the facts of record on which the District Court below acted to enjoin a multiplicity of actions. The complaint against National was brought in the United States District Court for the Northern District of Iowa as was the complaint against Certain-teed (R. 614, 646). The complaint against Ebsary was brought in the District Court for the Southern District of New York (R. 622). The complaint against Newark was brought in the District Court for the District of New Jersey (R. 634). The notices of infringement (p. 18, n. 12, *supra*) sent to the Henry J. Kaiser Company were addressed to Oakland, California (R. 655), and might well have resulted in litigation there. The Celotex Corporation, against which claims for infringement for the period prior to the entry of the final decree also have been made (p. 18, n. 12, *supra*), has its principal offices in Chicago, Illinois and it is probable that litigation would have been brought in the District Court there. Obviously, the power of the District Court below to enjoin against a multiplicity of actions cannot retroactively be affected by the circumstances that the Newark and Ebsary suits have been settled after the Court below acted on the facts then before it (USG Br. 33-34). The question, of course, is whether or not the District

Court had a proper basis for decision at the time that decision was made.[19]

In all of these matters the same issues are involved. USG claims to have against Ebsary, Newark, Certain-teed and the others the same rights it asserts against National.

Other federal courts may, we agree, also have power to construe the 1951 Final Decree (USG Br. 34 and note). Neither that consideration nor the cases cited by appellant, however, cast any doubt on the power and discretion exercised by the District Court to grant an injunction against multiplicity of actions.

D. ***National and all other petitioners had standing to petition for orders, modifications or directions for the enforcement, construction or carrying out of the Final Decree of May 15, 1951.***

Appellant argues, "It is clear that only the Government is entitled to seek to enforce an antitrust decree in the manner sought by the corporate appellees." (USG Br. 30). A glance at the terms of Article X of the Final Decree ought be enough to dispose of this contention. Jurisdiction of the cause and of the parties was retained by the District Court "for the purpose of enabling any of the parties * * * to apply to this Court at any time for such orders, modifications" etc. (R. 571; Devel., p. 13).

National and the other petitioners below, the United States, Certain-teed, Ebsary and Newark, were all parties to the decree (1951 Decree, Art. II, R. 564). It was not necessary for the United States to participate in the proceedings in order to give National proper standing to invoke the Court's jurisdiction. Nevertheless, the Government did participate, and did petition the District Court

---

19 See pp. 22-23, *supra*, re these settlements.

for an order enjoining prosecution of those claims which were based on the agreement found to be illegal, null and void (R. 739). It pointed out that the finding would be "empty and futile" if it means that the agreements "remain null and void only until a party to the agreements chooses to sue thereon" (Brief of U. S., October 8, 1953, p. 12). The United States invoked the Court's jurisdiction to modify, which it described as "explicitly within the reservation of jurisdiction provisions of Article X" (*Id.*, p. 13 and see p. 13, *supra*). The Government did not take the position in the proceeding below that the District Court's power is limited to enforcement of the decree against the counts based on the nullified agreements (R. 814-816, 877-882, *supra*, pp. 18-19).

The petitioners—all of them, including the Government—activated the District Court's jurisdiction by lodging their petitions with it. The Court had the power to grant all necessary and appropriate relief. Its power could not be circumscribed by the limitations contained in the positions advanced by any of the petitioners. The extent of the exercise of power—once invoked—was for the Court, and not for the parties. Obviously, once the jurisdiction of the Court had been activated, neither the United States nor any of the other parties could restrict the Court's range of judgment in exercising its power to modify the Decree.

The standing of National itself to invoke the jurisdiction of the District Court is not weakened by the circumstance that the modification "inures greatly to [petitioners'] financial benefit" (USG Br. 32). The general rule which governs petitioners' standing (30 C. J. S., Equity §6031, citing particularly, *Louis* v. *Brown Township*, 109 U. S. 162 (1883)) is that:

> "Adverse or conflicting interests between co-defendants may be passed on, and a decree made between

> them grounded on the pleadings and proof between plaintiff and defendants, and founded on and connected with the subject matter in litigation between plaintiff and one or more defendants, although plaintiff has no interest in the controversy between co-defendants."

Since Article X of the decree expressly reserves rights for the parties to the decree to invoke the District Court's jurisdiction, the cases cited by appellant at pp. 30-32 of its Brief are without relevancy. Those are all cases involving strangers to a decree who obviously had no *locus standi.*

Buckeye Coal & Ry. Co. v. *Hocking Valley Ry. Co.,* 269 U. S. 42 (1925) (USG Br. 30) is a case in which coal companies, not parties to the decree, were seeking to intervene in order to modify a decree (269 U. S. at 49). They were mere "informers" (269 U. S. at 48) and had no legal standing. The same infirmity attaches to the other authorities cited by Appellant at page 31 of its Brief, i.e., *United States* v. *Bendix Home Appliances,* 10 F. R. D. 73, 75 (S. D. N. Y. 1949); *United States* v. *General Electric Co.,* 95 F. Supp. 165 (D. N. J. 1950); *United States* v. *Radio Corporation of America,* 3 F. Supp. 23 (D. Del. 1933); *United States* v. *Columbia Gas & Electric Corp.,* 27 F. Supp. 116, 119 (D. Del., 1939) appeal dismissed, 108 F. 2d 614, *cert. denied,* 309 U. S. 687 (1940); *United States* v. *Northern Securities Co.,* 128 Fed. 808, 813 (S. D. Minn. 1904) *aff'd.,* 193 U. S. 197 (1904).

Terminal R. R. Assn. v. *United States,* 266 U. S. 17 (1924), is a close precedent on the question of standing. That was an equity action brought by the Government under the Sherman Act. Three years after entry of a final decree against the defendants, one group of original defendants (the West Side Lines) charged another group of original defendants (the East Side Lines) with violation of the Court's decree, and sought a contempt adjudication.

" • • • the United States did not join in the complaint or participate in the hearing in the District Court • • • The proceedings were instituted by the West Side lines, not to vindicate the authority of the court, but to enforce rights claimed by them under the original decree." 266 U. S. at 27. This Court disposed of the matter on the merits, indicating that the right of antitrust defendants to seek enforcement of the decree, when enforcement is in their interest, was undoubted.[20]

The case at bar is governed by *Missouri-Kansas Pipe Line Co.* v. *United States,* 312 U. S. 502 (1941). That case, like this, arose out of an equity action brought by the Attorney General under the antitrust laws. A consent decree was entered and, thereafter, Mokan, a stockholder of Panhandle which, under the consent decree, had the right to "become a party", sought to exercise that right in order to seek modification of the consent decree which was deemed inadequate to accomplish its original purpose.

---

20 The opinion of the District Court, made up of Circuit Judges Sanborn, Carland, and Stone, states that "counsel for respondents filed a motion to dismiss the petition and to quash said order to show cause, upon the ground . . . that . . . the United States has made no complaint that the defendants in the original action or the respondents in the present proceedings had not obeyed the decree of this Court, and therefore it was not competent for petitioners to endeavor to prosecute the suit by way of proceedings for contempt." Transcript of Record before the Supreme Court of the United States, No. 115, October Term 1924, p. 496.

The District Court rejected this contention. (*Ibid.*) One of the appellants' assignment of errors was that the contempt decree of the District Court was erroneous, "In that the said decree permitted the parties instituting the proceedings, out of which said decree grew, to do so *when the United States of America was the only party complainant herein and neither initiated nor joined in said proceedings.*" Record in No. 115, October Term 1924, pp. 520, 531 [emphasis added]. The issue thus raised was discussed in the Brief for Appellants, pp. 40-41, and the Brief for Appellees, pp. 27-31.

It was contended, in opposition to Mokan's participation, that "the Attorney General is the guardian of the public interest in enforcing the antitrust laws." 312 U. S. at 505. But this Court said (312 U. S. at 506, 508):

> "All of these arguments misconceive the basis of the right now asserted. Its foundation is the consent decree. We are not here dealing with a conventional form of intervention, whereby an appeal is made to the court's good sense to allow persons having a common interest with the formal parties to enforce the common interest with their individual emphasis. Plainly enough, the circumstances under which interested outsiders should be allowed to become participants in a litigation is, barring very special circumstances, a matter for the *nisi prius* court. But where the enforcement of a public law also demands distinct safeguarding of private interests by giving them a formal status in the decree, the power to enforce rights thus sanctioned is not left to the public authorities nor put in the keeping of the district court's discretion."
>
> • • •
>
> "We are not concerned with the substantiality of [Panhandle's] claim. The sole question before us is whether there was standing to make the claim before the district court. We hold there was such standing. . . . Nor can the enforcement of this protection be deemed remotely in conflict with the public duties of the Attorney General, nor to bring in digressive issues, nor to impeach the existing decree. It is a vindication of the decree."

In sum, the petitioners below had standing to make the claim before the District Court. The Court was in no way limited by the positions advanced by any of the petitioners, including the United States. Acting as a court of equity—once its jurisdiction was properly invoked—it had authority to afford a full measure of relief to the parties before it.

II

The District Court properly construed the 1951 Decree to bar Counts I and II of the Iowa action. The 1951 Decree should be construed to bar all the other counts claiming compensation prior to 1951.

A. *Counts I and II of the Iowa Action were properly enjoined because their prosecution violated Article IV of the Decree.*

Counts I and II of the Iowa action expressly pleaded National's liability for royalties in the amount of $1,600,000 on the license agreement declared a nullity by Article IV of the decree (R. 614-617, 786-787, App. A).

These license agreements on which USG sued in its Counts I and II were successfully attacked by the United States of America in an historic eleven-year litigation, in the course of which this Court twice condemned them as the prime means of effectuating unlawful control of an entire industry. Article IV had specifically adjudicated them "illegal, null and void" (R. 567; Devel., p. 5). Unless this litigation and this provision of the decree are deemed to be idle gestures, USG was properly barred from enforcing its unlawful licenses.

It is clear that Article IV was sufficient basis for the District Court's injunction against enforcement of the agreements. The lack of a specific injunction in the Decree of 1951 against enforcement of the agreements might have prevented a contempt citation against USG for its action in suing thereon; it certainly did not stand in the way of a later specific injunctive implementation of that declaration. *Dugas* v. *American Surety Co.*, 300 U. S. 414, 427 (1937); *Local Loan Co.* v. *Hunt*, 292 U. S. 234 (1934), *supra*.

The Final Decree did not simply strike the unlawful portions of the license agreements and leave the provisions for royalties in effect, as USG's Iowa Count II seems to assume (R. 616-617, 786-787, App. A). As we have seen (*supra*, pp. 8-9), Article IV did not follow the proposal of USG merely to cancel the illegal price-fixing provisions of the patent license agreements (R. 183-184, 192, 393); it declared them to be "illegal, null and void" in their entirety.

Moreover, by the time the Final Decree was entered, it had become settled law that unlawful price-fixing provisions in patent license agreements are not severable from the license provision for the payment of royalties. All provisions of the unlawful license agreements fall together. *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394, 401 (1947); *MacGregor* v. *Westinghouse Elec. & Mfg. Co.*, 329 U. S. 402, 407 (1947).

Count III also alleged National's liability for $1,600,000 at the royalty rate fixed by the illegal agreement. It pleaded the original illegal, void agreement of October 17, 1929; but then recited that on or about February 1, 1948, National repudiated the agreement and discontinued payment; that USG acquiesced in this repudiation, that each of the parties treated the agreement as rescinded, but that National then requested permission to use the Roos Patent promising to pay the reasonable value for its use from the time of the repudiation to May 15, 1951 (R. 618-619, App. A). Consequently, it is charged that National became indebted to USG in the sum of $1,600,000. This allegation sets up an agreement, either express, or, implied in fact, for the payment by National of royalties for the use of USG's patent for the period February 1, 1948 to May 15, 1951. The Court below found this to be an *indebitatus assumpsit* count based on a pleaded express contract (Finding 28, R. 1153; Conclusion 14, R. 1157). Appellant, however,

refers to the count as one in *"quantum meruit"* (USG Br. 17-18). No consequence turns on this difference between the Court's finding and the pleader's characterization of its count. If in fact the action is for *"quantum meruit"*, as will be demonstrated later in the discussion of Count IV (pp. 51-52 *infra*), recovery on this theory cannot be had. If, as the District Court found, this count sounds in *indebitatus assumpsit*, it is equally infirm.

Article II of the Final Decree of May 15, 1951 (R. 564-566) included not only the "Agreement dated October 17, 1929, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee," and the "Agreement dated November 5, 1929, between United States Gypsum Company, as licensor, and Universal Gypsum and Lime Company (National Gypsum Company, as Assignee) as Licensee" but also "any supplement or amendment to any of said license agreements" (R. 566). If the agreement alleged in Count III of USG's Iowa complaint is a supplement or amendment to the 1929 agreements, it, too, was adjudicated "illegal, null and void" by Article IV of the Final Decree.

Even if the agreement pleaded in Count III of the Iowa complaint be not held to be specifically a supplement or amendment to the 1929 patent license agreement, it is, we contend, nonetheless reached by the ban of Article IV of the Final Decree of May 15, 1951. This result follows because the Government, the defendants, and the original District Court all intended that the adjudication of illegality in Article IV should apply to all patent license agreements between USG and others in existence at the date of the Final Decree.

That this was the intention expressed by the decree is made clear through the following excerpts from the argument made during the course of proceedings leading to the entry of the Decree of November 7, 1949:

"Mr. Knuff (counsel for the United States): • • • and that will bring me then to discuss the question of the cancellations of licenses.

"I do not think the court is going to have too much trouble in disposing of this section of the decree, because, if I understand USG's position correctly, they do not object to the cancellation of the existing licenses. All that they object to are the words that we use to express that idea.

"Well, the reason we use the broad language that we did, was: We didn't know what licenses might have been entered into subsequent to the last hearing on this case.

"If USG will certify to this court that they have not any additional licenses, other than the ones that they refer to in their objection; and, if each licensee, in turn, will certify that they have not any other licenses, other than what is set forth in the objection [sic], we have no objection at all to having the provisions of this decree specify the licenses that USG mentioned in their memorandum" (R. 278).

• • •

"Mr. Connelly (counsel for USG): Now, with reference to that list of patent license agreements, counsel for plaintiff has stated here that it is entirely agreeable to him that that list of licensees be incorporated provided that it can be certified that those are the only agreements in effect between the parties.

"In attempting to deal with that situation specifically, we think that to avoid any possibility that there may be some amendments or supplements to those agreements which thus far have not come to our attention in connection with it, at the end of Article II of the form of decree attached to the defendants' memorandum these words might be added: 'And any supplement'—that is at page 84 of our memorandum.

"Chief Judge Stephens: Where would that go?

"Mr. Connelly: At the very end of Article II.

"Chief Judge Stephens: Article II, at the top of page 84?

"Mr. Connelly: Yes, sir, at the top of page 84, just after the list of licensees. [sic]

"Chief Judge Stephens: I see.

"Mr. Connelly: 'And any supplement or amendment to any of said patent license agreements.' With that addition, the list is obviously all-inclusive, and the certification requested may properly be made" (R. 307-308).

The list referred to by Mr. Connelly contains no agreement made later than 1939 (R. 190-191). Count III pleads an agreement made with National in 1948. Nevertheless, counsel for USG met the Government's objection that there might be outstanding license agreements not specified in Article II of the Decree, by certifying to the Court that "the only agreements in effect between the parties" were those specifically listed and supplements or amendments thereto.

USG could not truthfully certify to the District Court that there were no agreements between it and National entered into between 1948 and 1951 and later, conscientiously, bring suit to enforce such a claimed agreement in the Iowa Court. The only way to resolve this conflict, and avoid an inference of fraud, is to assume that the 1948 agreement, if it existed, was a supplement and amendment to the 1929 license agreement, and if it were such a supplement and amendment the adjudication of illegality in Article IV of the Final Decree applied to it with as much force as it did to the original 1929 agreement.

B. ***The fair intendment of the Final Decree of May 15, 1951 barred USG from prosecuting all counts of its Iowa Action.***

In 1943 the United States, with the Courts' leave (1947 R. 350), amended its complaint to include a prayer enjoining the defendants from prosecuting infringement suits "or otherwise" to collect royalties on its misused patents

(1947 R. 347). The prayer was never withdrawn, but when the time came for preparation of the decree, there was no immediate, apparent need for this specific injunction. Prior to 1951, no infringement claims at any time had been made or even threatened (R. 1013). The only claims against which specific provisions seemed to be required were those made by USG under the agreements which the 1949 and 1951 Decrees adjudicated illegal, null and void. As seen (pp. 8-9, *supra*), proponents of Article IV of the decree and USG in opposition, recognized that the declaration applied not only to enforcement of the license agreements themselves, but to all enforcement of the underlying patents for the pre-decree period. The broad question of whether USG was entitled to compensation for use of its patents was tendered to the Court which framed the Decree and was resolved by the Court below in Article IV.

Appellant relies heavily on the statement of counsel for Celotex, one of the defendants, to the point that it was not the purpose of Article IV to avoid liability for use of the USG patents (USG Br. 67, 68 and note). This statement supports rather than contradicts the contention that the matter of compensation for the use of USG's patents was put at issue before the District Court at the time the Final Decree was entered. Mr. Dallstream discussed that issue, speaking for his client, and his alone.[21] He spoke of

---

21 USG is inaccurate in stating that "Mr. Dallstream, the Celotex attorney, because of his familiarity with the *Masonite* case, was to present the defendant licensees' views as to the suggested form of decree" (USG Br. 68, note). The defendant licensees, other than USG, had merely allocated the time for argument among themselves (R. 344-345), they had no plan of presentation of position to the Court. Mr. Miller, counsel for Certain-teed, deferred to Mr. Dallstream as to "the exact changes we desire to make in both decrees [USG's and the Government's]," but indicated no

"my position . . . so far as my client is concerned" (R. 373). And his client, he said, was willing to let the royalty rate "apply back to the time when we ceased paying royalties" (R. 373). However, the other defendants at the same time clearly articulated their different views, as did the United States (R. 385, 406-407, 426-428, 432). USG itself repeatedly referred to its conviction that the proposal for adoption of Article IV was being made in an attempt to relieve the defendants from accounting for anything done either before or after the Supreme Court's decision of March 8, 1948 (R. 437, see also R. 439, 440). It told the District Court:

> "The defendant licensees can have no purpose in making the suggestion that each patent license be adjudged illegal except to obtain some advantage with respect to the use of the patents" (R. 437).

It was in knowing resolution of the difference between the proposal to void the agreements in their entirety and USG's more limited proposal to strike only the pricing provisions that the District Court acted in adopting Article IV.

We contend that the District Court in so doing manifested its purpose to suspend USG's right to enforce in any way those patents which it had misused. That purpose would have been frustrated if USG had been left free under some alternative theory to recover compensation for the

---

agreement with Mr. Dallstream as to the effect of the proposed changes (R. 364-365).

When Mr. Dallstream himself spoke, he said (R. 369): "Now, in this case *we have differences of opinion.* These various agents, some of them have a few plants, some of them have many, some of them are using this patented process and not some of the others. There is not complete uniformity in the extent of use. There are some differences as between the agents themselves and with USG. • • • "

use of its patents for the same period as to which recovery under the contract was prohibited.[22]

III

The lower Court acted within its discretion in modifying the 1951 Decree to bar USG's Counts IV *(quantum meruit)* and V (infringement).

Assuming, arguendo, that the Final Decree, fairly construed, does not bar USG's *quantum meruit* and infringement claims for the period preceding the 1951 Decree, the District Court properly acted within its discretion in modifying the Decree to bar these claims.

The so-called *quantum meruit* claim may be given short shrift. It is a pure invention of counsel. A *quantum meruit* claim does not lie for use of a patent.[23]

The only substantial question here is whether the District Court acted properly in modifying its 1951 Decree to enjoin USG's infringement claims for the pre-decree period.

---

22 The District Court did not adopt our contention that Article IV barred all USG's claims; its view was that the Decree in its present 1951 form, barred only Counts I and II and "neither allowed nor forbade" the other counts (Conclusion 7, R. 1156).

23 It is not possible to found a *quantum meruit* claim on patent infringement, for the reason that the infringement remedy is wholly statutory and has no common law basis. The patent owner, under the statute, may sue at law for damages for infringement, or seek an injunction, accounting and damages in equity. 35 U. S. C. §§281, 283, 284.

Infringement of a patent is a tort. *Carbice Corp.* v. *American Patents Corp.*, 283 U. S. 27, 33 (1931); *Stein* v. *Goddard*, 22 Fed. Cas. No. 13,353 (C. C. Cal. 1856); 69 C. J. S. p. 890. Accordingly, the law will not resort to the fiction of a contract on the part of the infringer to sustain a quasi-contractual action. *In re Paramount Publix Corp.*, 8 F. Supp. 644 (S. D. N. Y. 1934); see 1 Williston on Contracts, §3.

USG contends that the 1954 amendment is improper because it "does not effectuate the purposes of the decree,[24] but improperly injects into the decree a subject matter of a purely private nature" (USG Br. 25). USG asserts that payment for the use of patents *pendente lite* has no connection with any of the basic purposes of the decree (USG Br. 70). The authority cited by USG for this proposition is *Hartford-Empire Co.* v. *United States*, 323 U. S. 386 (1945); 324 U. S. 570 (1945).

It has been held in several cases that there is no quasi-contractual action for patent infringement. *In re Paramount Publix Corp., supra; In re Boston & Fairhaven Iron Works*, 23 Fed. 880 (C. C. D. Mass. 1885); *Schillinger* v. *United States*, 155 U. S. 163 (1894); *United States* v. *Palmer*, 128 U. S. 262 (1888); *cf. DeWitt* v. *Elmira Nobles Mfg. Co.*, 66 N. Y. 459 (1876); *Cohan* v. *Robbins Music Corp.*, 244 App. Div. 697 (1st Dept. 1935). We have not been able to find any cases holding *contra*.

Moreover, it is settled (*Bruce's Juices* v. *American Can Co.*, 330 U. S. 743, 748, note 1 (1947)) that:

> ". . . no recovery on quantum meruit could be had. The general rule is that a transaction wholly illegal will not support such a suit. See *Williston, Contracts* §1786(a); Restatement of Contracts, §598, Comment c."

An action for *quantum meruit* is quasi-contractual imposed by law without regard to the intentions of the defendant. Such obligations do not spring into being unless they are of a kind which could have been enforced under common law procedure by a contractual action (1 Williston on Contracts §3). Since the direct contractual obligations were illegal, there is no foundation for *quantum meruit*.

24 This Court stated the purpose of an antitrust decree in its second opinion in this action (340 U. S. 76, 88):

> "A trial court upon a finding of a conspiracy in restraint of trade and a monopoly has the duty to compel action by the conspirators that will, so far as practicable, cure the ill effects of the illegal conduct, and assure the public freedom from its continuance. Such action is not limited to prohibition of

USG is in error. It is too late to argue now in a patent misuse case that such a remedy can have no relation to the basic purpose of an antitrust decree, and that it "improperly injects" into a decree "a subject matter of a purely private nature" (USG Br. 25). This Court has already sanctioned this remedy in antitrust suits. *Hartford-Empire Co.* v. *United States, supra* 323 U. S. at 418-9 (1945); *National Lead Co.* v. *United States,* 332 U. S. 319 (1947), *aff'g* 63 F. Supp. 513, 534 (S. D. N. Y. 1945). Lower courts thereafter have granted the same remedy of forbidding infringement suits until entry of a final, effective decree, *e.g., United States* v. *Vehicular Parking, Ltd.,* 56 F. Supp. 297 (D. Del. 1944), 61 F. Supp. 656 (D. Del. 1945). Indeed this relief, in some form, is most frequently included in consent decrees settling patent misuse cases.[25]

---

the proven means by which the evil was accomplished, but may range broadly through practices connected with acts actually found to be illegal. Acts entirely proper when viewed alone may be prohibited. The conspirators should, so far as practicable, be denied future benefits from their forbidden conduct."

The basic purpose of the 1951 Decree is not limited merely to the prevention of future violations of the Sherman Act as USG would have this Court believe (USG Br. 69). Its primary purpose rather is to dissipate the effects of the illegal restraints imposed upon the industry by USG, and, also to prevent future recurrences.

25 During the period from 1946 to December 1955, it is found in 42 of 64 such cases. CCH Trade cases (1946-1947) Par. 57,492, p. 58,295; Par. 57,444, p. 58,058; Par. 57,603, p. 58,656; Par. 57,579, p. 58,587; Par. 57,645, p. 58,783; Par. 57,458, p. 58,122; Par. 57,542, p. 58,452; Par. 57,456, p. 58,115; Par. 57,621, p. 58,710; Par. 57,433, p. 58,036; CCH Trade Cases (1948-1949) Par. 62,230, p. 62,341; Par. 62,284, p. 62,649; Par. 62,349, p. 62,905; Par. 62,223, p. 62,272; Par. 62,255, p. 62,519; Par. 62,338, p. 62,879; Par. 62,268, p. 62,606; Par. 62,233, pp. 62,358, 62,363; Par. 62,518, p. 63,534; Par. 62,323, p. 62,809; Par. 62,442, p. 63,270; Par. 62,334, p. 62,860; Par. 62,236, p. 62,375; Par. 62,330, p. 62,844; Par. 62,356, p. 62,933; CCH Trade

The question is whether the record in this case justified the imposition by the District Court of this now routine remedy. USG, by failing in its Brief to treat this question, never really gets to the heart of the issue of modification. It certainly is not enough to say, as USG does, that such relief "injects into the decree a subject matter of a purely private nature" (USG Br. 25). The same argument could have been made in all other cases in which such relief has been granted. Nor is it enough to contend, as USG does, that since the Government is not now asking for this relief, such relief would not carry out the basic purposes of the decree (USG Br. 70-71). It is the Court, and not the Government, which must determine the question of appropriate relief.

National contends that the District Court was justified, on the basis of (A) the similarities of this case to *Hartford* and *National Lead;* and (B) several specific facts in this record, to invoke the remedy of injunction against infringement suits for the pre-1951 decree period.

A. *The Hartford and National Lead cases support the remedy of pre-decree injunction against infringement suits.*

In both *Hartford* and the instant case (*Gypsum*):

(1) The unlawful combination controlled an entire industry. In *Gypsum* (east of the Rockies) the control was 100% (333 U. S. 364, 371); in *Hartford,* 94% (323 U. S. 386, 400).

Cases (1950-1951) Par. 62,533, p. 63,575; Par. 62,586, p. 63,727; Par. 62,867, p. 64,570; Par. 62,914, p. 64,783; CCH Trade Cases (1952) Par. 67,248, p. 67,385; Par. 67,233, p. 67,343; Par. 67,403, p. 68,060; CCH Trade Cases (1952-1953) Par. 67,501, p. 68,465; Par. 67,583, p. 68,769; Par. 67,595, p. 68,859; CCH Trade Cases (1954) Par. 67,714, p. 69,294; Par. 67,733, p. 69,361; Par. 67,771, p. 69,468; Par. 67,828, p. 69,681; Par. 67,829, p. 69,691; CCH Trade Cases (1955) Par. 68,023, p. 70,323; Par. 68,093, p. 70,520.

(2) Control was effectuated through patent pooling and licensing. In *Hartford* the patents were pooled primarily in the Hartford-Empire Company (323 U. S. 386, 400); in *Gypsum,* the patents were pooled in USG.[26]

(3) Control covered not only patented but unpatented products. In *Hartford* the patents which covered machinery were used to extend control over unpatented glassware (323 U. S. 386, 400). In *Gypsum* the patents which covered wallboard were used to extend control over unpatented board and plaster (333 U. S. 364, 397, 399).

(4) The patents were used to fix the prices of both patented and unpatented products. In *Hartford* the patents were used to fix the price at which patented machinery was leased and licensed to glassware manufacturers, and there was some slight evidence of price-fixing of unpatented glassware (323 U. S. 386, 400). In *Gypsum* price-fixing was extended to all gypsum products patented and unpatented (333 U. S. 364, 399).

In both cases this Court ordered compulsory licensing at reasonable royalties of both existing and future patents.

In *Hartford,* however, Mr. Justice Roberts speaking for the Court also ordered as to the Hartford-Empire Company and all other defendants

> "• • • if at the time of entry of the decree there are any alleged infringers who are willing to take such

---

26 USG acquired admittedly basic patents from Universal, which were prime instruments in USG's price regulation (333 U. S. 364, 380-381). In *Hartford,* none of the acquired patents was basic; Hartford contended without contradiction from the Government that all acquired patents were "non-competing" and "supplementary" (*Hartford-Empire* v. *United States,* Supreme Court, Oct. Term 1943, No. 7, Brief for Hartford-Empire, pp. 102-110).

licenses they should be released, and the *patent owner deprived of all damages and profits which it might have claimed for past infringement*" (323 U. S. at p. 419). (Emphasis supplied.)

In its Brief (pp. 21-22, 40, 47, 60, 66-67, 70), USG has intermixed this controlling aspect of *Hartford-Empire* with a special problem in that case related to the disposition of earmarked royalties paid by Hartford's licensees into the hands of a receiver during the period between the initial and final decrees issued by the lower Court.

The lower Court in *Hartford* had appointed a receiver at the time of entry of its initial decree, in order, *inter alia*, "to prevent any further abuse of the patent privileges of Hartford" (46 F. Supp. 541, 620 (N. D. Ohio 1942)). Hartford's licensees had paid royalties to Hartford's receiver, for the use of Hartford's machines and patents, during the period between the initial and final decrees. This Court in its first opinion said the royalties should be paid over to Hartford, unless Hartford since the initial decree violated (1) the anti-trust laws or (2) the District Court's decree as modified by the Supreme Court (323 U. S. at p. 411). In its second opinion, however, this Court said that Hartford's licensees could repudiate their agreements with Hartford, and litigate their rights to the monies paid to the receiver (324 U. S. at p. 572). Thereafter, the licensees and Hartford settled their dispute as to these monies.

It appears from the two opinions of this Court (323 U. S. 386, 324 U. S. 570) that:

(1) Hartford was to be enjoined from infringement suits against persons who used its patents prior to the entry of the final decree.[27]

---

27 Thus, for example, Hartford was enjoined from seeking damages or profits from F. E. Reed and Jeannette Glass Company

(2) Persons who chose to return Hartford's machinery and to use Hartford's patents were also insulated from any infringement suit prior to the final decree.[28]

(3) Persons who continued to use Hartford-Empire's machinery and patents and who paid the receiver for such use were given the right to litigate any royalty claim of Hartford for use of its patents for the period prior to the entry of the final decree.

It appears from the foregoing, therefore, that no person using Hartford's patents for the pre-decree period was obligated to pay for their use by this Court. There is, therefore, nothing in *Hartford-Empire* which supports USG's claim that it is entitled to compensation for the use of its patents for the period preceding the final decree. The essential point is that under *Hartford-Empire* "alleged infringers"—and National and Certain-teed are certainly alleged infringers—who took a license upon entry of the Final Decree—which National and Certain-teed did—"should be released and the patent owner (USG) deprived of all damages and profits which it might have claimed for past infringement"[29] (323 U. S. at p. 419).

---

against whom infringement suits were pending at the time of the District Court's initial findings (Findings 279, 280, Transcript of Record, Supreme Court of the United States, October Term, Nos. 7-11, *Hartford-Empire et al.* v. *U. S.*, Vol. X, page 7338).

28 Although it does not appear that there were any persons in this class (Report of James A. Shanley, Receiver of Hartford-Empire Company, On The Operation and Results of the Receivership, Aug. 28, 1944) it is clear that such persons could only be "alleged infringers" and Hartford could not sue therefor.

29 Conceivably this Court's ruling as to earmarked royalties might lend some color of validity to a claim by National from USG for royalties paid to it under the illegal agreements. National, however, is not seeking such royalties, although it has paid

The ultimate disposition of the earmarked royalties in the Final Judgment of the District Court (Final Judgment as Amended May 23, 1947) is of no moment (see USG Br. 40), since it was a result of a negotiated settlement. The law was laid down by this Court as above stated.

This Court itself has pointed out the similarities of the instant case to *National Lead,* a case, like *Hartford* and *Gypsum,* of industry-wide monopolization and restraint through patents, in passing on the very question of appropriate patent relief. In ordering compulsory licensing in the instant case on the basis of *National Lead* this Court noted that the violations of law in National Lead "were as offensive to the prohibitions of the Sherman Act as those proven in the present case," 340 U. S. at 93. In *National Lead,* as stated *supra,* an injunction against infringement suits was deemed an appropriate remedy. *National Lead* did not have the peculiar problem in *Hartford* of payments to a receiver. The injunction in National Lead, therefore, forbade each of the defendants from prosecuting infringement suits against all persons (including, of course, co-conspirators) for the pre-decree period.

There was ample discretion in the District Court, on the basis of *Hartford* and *National Lead,* to enjoin USG's infringement claims at the time of entry of the 1951 Decree if there had been any then pending or even threatened. There can be little doubt that it would have so enjoined

---

to USG many millions of dollars in royalty fees under its illegal license agreement. In its Iowa action USG charges National with owing it $1,600,000 based on a royalty of 1% for $160,000,000 of gypsum board allegedly made and sold by National under the Roos patent. During most of the period of National's license, 1929-1948, the royalty rates were higher: 3 1/2% from 1929 to 1937; 2% from 1937 to 1941; 1% thereafter (1947 R. 4360), and they were assessed against unpatented as well as patented gypsum board.

them. The result should not be different because USG waited for years after entry of the 1951 Decree to institute its infringement claims. Unless this issue is treated on the same basis as if it had arisen by an infringement suit started by USG prior to entry of the 1951 Decree, USG obtains a benefit by holding back its infringement claims almost to the end of the limitations period.

In *Armstrong* v. *De Forest Radio Telephone & Telegraph Co.*, 10 F. 2d 727, 728 (2d Cir. 1926), *cert. denied*, 270 U. S. 663 (1926), the Court of Appeals for the Second Circuit said:

> "It is not true that the object of a supplemental injunction is to *amplify* the original one; the object is not to amplify, but to *specify*, and apply the original injunction to actions and objects non-existent when the case was decided. *The inquiry is whether acts and things that have come into existence since* [*the*] *decree would have been enjoined by that decree, had they then existed*" (emphasis in last sentence added).

Affirmance by this Court of the injunction against USG's prosecution of its infringement suits will not only apply the principles and precedents set forth above, but also serve to promote good public policy. In cases where patents have been misused, patentees should be sterilized from the usual rewards for their inventions. This would (1) cause licensees more readily to break away from the licensor who has enmeshed them in an antitrust conspiracy, and (2) to discourage in advance licensors from using their patents as tools of commercial domination.

B. *Other facts support the District Court's discretion.*

In addition to the basic similarity of this case to *Hartford* and *National Lead*, many other facts in this case sup-

port the exercise of the District Court's discretion in ordering USG to discontinue its pre-decree infringement suits.

First, as stated, *supra* p. 6, patent infringement suits were the prime means used by USG to bring about the patent licenses under which the entire industry was monopolized and regimented, and which USG is still seeking to enforce.

Second, the Roos Patent on which the *National* and *Certain-teed* suits are based, was not made available to any alleged infringer on a reasonable royalty basis, and without restrictions as to price-and-quantity-reporting to USG, until entry of the 1951 Decree. (See pp. 14-15, *supra.*)

Third, as the District Court pointed out (Finding 6, 7, R. 1145) the "practical situation" was that the licensees necessarily had constructed their plants on the basis of using USG's patents, and the Supreme Court's first opinion (333 U. S. 364) had placed them in a "perilous" position. It is certainly not an unwarranted exercise of discretion to "protect" the licensees until such time as they can negotiate an unrestricted license with a dominant licensor under the aegis of a Decree (see pp. 6, 52, n. 24, *supra*).

Fourth, USG, by Counts I and II of its suits in Iowa and elsewhere, at the very least, flouted Article IV of the Decree (see pp. 44-45, *supra*). If the issue as to modification was in doubt in the mind of the District Court, it could properly conclude that modification was warranted to insure future respect by USG of the Court's decree.

It is submitted, therefore, that the three-judge District Court's modification of its decree was an appropriate exercise of its power.

C. *The District Court's exercise of discretion should not be disturbed on appeal.*

A long line of cases in this Court indicates a judicial reluctance to disturb a District Court's exercise of its broad power to shape its decree, and particularly that of a statutory three-judge Court.

In *United States* v. *Crescent Amusement Co.*, 323 U. S. 173 (1944) Mr. Justice Douglas said at page 185:

> "where the findings of violations are sustained, we will not direct a recasting of the decree except on a showing of abuse of discretion."

In *Associated Press* v. *United States*, 326 U. S. 1 (1945), Mr. Justice Black, writing for the Court, at page 22, said:

> "The fashioning of a decree in an antitrust case in such way as to prevent future violations and eradicate existing evils, is a matter which rests largely in the discretion of the court."

In *United States* v. *National Lead Co.*, 332 U. S. 319 (1947), Mr. Justice Burton said at pages 334-335:

> "In our opinion, the provisions of this decree, to a large extent, are matters lying within the discretion of the District Court as a court of equity whose duty it was to make the remedy as effective as possible. • • • We believe that the District Court has not exceeded its discretion in the provisions of this decree. • • • "

In *International Salt Co.* v. *United States*, 332 U. S. 392 (1947), Mr. Justice Jackson said at pages 400-401:

> "The framing of decrees should take place in the District rather than in Appellate Courts. They are invested with large discretion to model their judgments to fit the exigencies of the particular case."

When the instant case was before this Court in 1950, Justice Reed said:

> "The determination of the scope of the decree to accomplish its purpose is peculiarly the responsibility of the trial court. Its opportunity to know the record and to appraise the need for prohibitions or affirmative actions normally exceeds that of any reviewing court. This has been repeatedly recognized by us." (340 U. S. at p. 89.)

Although Justice Reed added "Notwithstanding our adherence to trial court responsibility in the molding of a decree as the wisest practice and the most productive of good results, we have never treated that power as one of discretion, subject only to reversal for gross abuse" (*id.*), the most recent pronouncement of this Court on the scope of review of antitrust decrees, as contained in *Besser Mfg. Co.* v. *United States,* 343 U. S. 444, 449 (1952), is as follows:

> "In framing relief in antitrust cases, a range of discretion rests with the trial judge. *United States* v. *National Lead Co., supra,* at 338; *International Salt Co.* v. *United States, supra,* at 400-401, 405; *United States* v. *Crescent Amusement Co.,* 323 U. S. 173, 185. We can see no abuse of discretion here."

Litigation like everything else must have an end, and this case has already been before the Court three times. It is submitted, therefore, that the District Court's modification of its decree ought not to be disturbed on review.

IV

The District Court also properly enjoined USG from enforcing its patent for the period prior to the 1951 Decree because of the unpurged misuse.

In Point III we have seen that the District Court properly exercised its amendment powers to enjoin USG's *quantum meruit* and infringement claims.

In this Point IV we shall demonstrate that the District Court also properly enjoined these claims (and all others as well) on the separate ground that USG as a matter of law could not show that the misuse of its patent, as appears from the record in this case to the time of the 1951 Decree, was purged prior to the entry of that Decree.[30]

The District Court so acted because it took jurisdiction to determine the questions of misuse and purge, which had been, or, would be, raised in each of the district courts in which USG had filed its suits (Conclusion 5, R. 1155). We have shown, pp. 36-39, *supra,* that the assumption of jurisdiction on the basis of this multiplicity of actions was warranted.

The District Court, then, sitting as each of the district courts might otherwise have done in each of the jurisdictions in which USG had brought its suits, upon an examination of the record in this case, found a misuse which could not, as a matter of law, have been purged until the 1951 Decree.

---

30 Even if this Court should find no basis for the District Court's modification in Point III, it is still possible to support the District Court's ruling *in toto* as to National and Certain-teed if our contention in Point IV is correct. Similarly, this Court may conceivably find that our contention in Point IV is unsupportable, but that the District Court's ruling is justified by our contention in Point III.

The District Court's ruling was correct.

Appellant in its Brief treats this Court's rulings on "misuse" as if they were based solely on USG's contumacious attempt to enforce its license agreements in the 1953 suits (USG Br. 21, 37, 44, 46, 47). This is not true. We have shown *supra* pp. 21-22, that USG's fresh misuse in 1953 was a separate ground for the Court's ruling that all USG claims must be dismissed against all petitioners. The fresh misuse ruling is treated in Point V *infra*. In this Point IV we discuss the ruling that USG's misuse, as shown by the evidence in this case and subsequent proceedings until the 1951 decree, could not as a matter of law, have been purged prior to that decree.

Preliminarily, we point out that a patent grant—unlike other forms of property—"is a privilege which is conditioned by a public purpose." *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661, 666 (1944). "The grant of a patent is the grant of a special privilege 'to promote the Progress of Science and useful Arts.' Const., Art. I, Sec. 8 * * * It is the public interest which is dominant in the patent system." *Id.*, at p. 665. See *Frank Adam Electrical Co.* v. *Westinghouse Elec. & Mfg. Co.*, 146 F. 2d 165, 167 (8th Cir. 1945).

Since the patent is a grant of a special privilege to promote a public policy, "misuse of the patent, or a part of it, by the patentee in such manner as to mislead the public or operate to its detriment, deprives the claim of the benefit of the patent laws." *Altoona Publix Theatres, Inc.* v. *American Tri-Ergon Corp.*, 294 U. S. 477, 493 (1935).

Or, as stated more recently by the Supreme Court in *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488, 494 (1942):

> "The patentee, like these other holders of an exclusive privilege granted in the furtherance of a public policy, may not claim protection of his grant by the courts where it is being used to subvert that policy."

The only property in a patent grant is the power to exclude others from practising the invention covered by the patent. That property—in essence a monopoly—is given to a patentee as a privilege, subject to certain duties and responsibilities. It is now clear that "misuse" of a patent (e.g. by using it to violate the antitrust laws) is such a violation of the privilege that it renders the patent unenforceable and valueless, at least so long as the misuse continues. Every patent grant in effect carries with it an implied notice to the patentee that the grant contained therein will be recognized and enforced by the courts only so long as the patent is not misused.

Beginning with *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 502 (1917), the Supreme Court has developed the rule—which is now well established—that any misuse of a patent in violation of the public policy embodied in the antitrust laws (or the patent laws) renders the patent unenforceable until the consequences of the misuse are fully dissipated.

". . . so long as the patent owner is using his patent in violation of the antitrust laws, he cannot restrain infringement of it by others." *Hartford-Empire Co.* v. *United States,* 323 U. S. 386, 415 (1947).

A. *The incontrovertible facts in this Court's second decision (340 U. S. 76) show sweeping misuse by USG.*

In the Court below there was a sharp issue between USG on the one hand and National and the other appellees on the other, with respect to what this Court in its second

decision had concluded was the extent of the misuse by USG of its patents.

The starting point of USG's contention on this issue in the Court below is the statement in this Court's second opinion "accepting as true the underlying facts in defendants' proof by proffer" (340 U. S. 88). Since the defendants' proffers "set forth facts substantially as found" in the lower Court's Findings of Fact entered on August 5, 1946 (USG District Court Brief, Sept. 8, 1953, p. 9), USG contended that these findings—although reversed in part by this Court's first opinion in 333 U. S. 364—provide the factual premise of the 1951 Decree.

Building upon this factual premise, USG's position in the District Court was that "each individual license agreement in this case constituted a valid and binding contract" (USG D. C. Br. 86); that there was no "inherent illegality" in the contracts sued on in its suits against the appellees or the "operations thereunder" (USG D. C. Br. 88); that the only illegality consisted of a "collateral conspiracy" arising from "concerted action" (USG D. C. Br. 88) by the defendants in entering into lawful individual contracts; that, therefore, there was no patent misuse here at all within the meaning of the *Morton Salt* case (*infra* p. 70) (USG D. C. Br. 116).

National's position in the District Court, and here, is that the factual premise of the 1951 Decree is not the District Court's Findings of August 5, 1946 which were reversed by this Court in 333 U. S. 364. National's position is that the controlling facts are those which this Court said in its second decision (340 U. S. 76) should govern the framing of the Final (1951) Decree and which it also said were unimpaired by defendants' proffers. These facts are:

1. The defendants "acted in concert to restrain commerce in an entire industry under patent licenses in order

to organize the industry and stabilize prices" (340 U. S. 76, 84, quoting 333 U. S. 364 at p. 401).

2. The price of gypsum board was fixed; production of open-edge gypsum board was restrained (340 U. S. 76, 86, 90).

3. Prices were fixed not only on patented gypsum board "but also in the sale of plaster and miscellaneous gypsum products sold in conjunction with gypsum board" (340 U. S. 76, 90-91).

4. Jobbers were eliminated (340 U. S. 76, 91; see 333 U. S. 364 at p. 397-398).

5. Trade practices were standardized (e.g., licensees had to sell non-standard wallboard at the same price as standard, and could not offer, because of a delivered pricing system, uniform sizes, etc., more favorable terms to one customer than to another) (340 U. S. 76, 91-92); see 333 at 3

Thus, it is National's position that this Court found broad patent misuse in this case on the basis of the above incontrovertible facts which activated this Court to command the expanded relief embodied in the 1951 Decree.

USG's Brief in this Court fails to state whether USG still claims, as it did in the Court below, that the factual premise of the 1951 Decree is the District Court's findings of August 5, 1946, and that this case therefore involves no misuse within the meaning of the *Morton Salt* case.[31]

---

31 In the event USG should hereafter take the same untenable position on this question which it did in the Court below, it needs no extended argument to show that USG's view is erroneous. If USG were correct, USG would have won, not lost, at each of the critical phases of the case leading to this Court's second decision: (1) on the Government's motion for summary judgment; (2) on the issue of whether each license agreement should be adjudicated illegal, null and void, when the District Court framed its decree

Any one of the five incontrovertible facts set forth *supra* pp. 66-67, which impelled this Court to broaden the 1949 decree, would constitute serious misuse; together they support our contention that this is one of the broadest of all patent misuse cases:

(1) *The use of patents as a price-fixing device.* The *Morton Salt* rule has often been applied to cases such as *Gypsum* in which patent license agreements contain illegal price-fixing provisions, and such misuse has rendered the patents unenforceable while it continued unpurged. *Westinghouse Elec. Corp.* v. *Bulldog Elec. Prods. Co.*, 179 F. 2d 139 (4th Cir., 1950); *Campbell* v. *Mueller*, 159 F. 2d 803 (6th Cir., 1947); *Newburgh Moire Co.* v. *Superior Moire Co.*, 105 F. Supp. 372 (D. N. J. 1952).

(2) *Use of patents to suppress the competition of unpatented products.* We have noted (see pp. 6, 67, *supra*) that this Court found violation of the antitrust laws in USG's attempt to suppress the competition of unpatented products. At least two lower Court authorities have directly applied *Morton Salt* to similar restraints of trade, *National Lockwasher Co.* v. *George K. Garrett Co.*, 137 F. 2d 255, 256 (3d Cir., 1943); *McCullough* v. *Kammerer Corporation*, 166 F. 2d 759 (9th Cir., 1948), *cert. denied* 335 U. S. 813 (1948). See also, *Park-In Theatres* v. *Paramount-Richards Theatres, Inc.*, 81 F. Supp. 466 (D. Del. 1948); *Chiplets, Inc.* v. *June Dairy Products Co.*, 89 F. Supp. 814 (D. N. J. 1950). Cf. *Pope Mfg. Co.* v. *Gormully*, 144 U. S. 224 (1892).

---

in 1949; (3) on USG's appeal to the District Court from the District Court's motion for summary judgment; and, of course (4) on the enlargement of that decree by this Court. The simple fact is that although this Court accepted the underlying facts of USG's proffer, it did not construe the facts in the proffer to be in conflict with the five undisputed facts of misuse set forth, *supra*.

(3) *Use of patents to boycott jobbers.* There is at least one lower Court case in which the *Morton Salt* rule has been applied in a situation where patents were used to favor one class of enterprisers as against another. Cf. *Urquhart* v. *United States,* 109 F. Supp. 409 (Ct. Cls. 1953); *National Foam System, Inc.* v. *Urquhart,* 202 F. 2d 659 (3d Cir., 1953).

B. *The "Morton Salt Doctrine" bars recovery on misused patents until misuse has been terminated and its effects have been dissipated.*

Since USG was found by this Court to have misused its patents under the antitrust laws, it could not recover for the use of its patents until there had been an effective purge. Purge could not have been found in the case of USG unless there had been a dissipation of at least each of the above five restraints prior to the entry of the Final Decree.

We urge, as the Court below found, (a) that USG did not purge itself of its patent misuse prior to the Final Decree of May 15, 1951, and (b) that USG could not, on the facts of this case, have purged itself at least until the Final Decree of May 15, 1951 was entered.

The burden of proof of purge fell squarely and unequivocally on USG. This doctrine was clearly established by this Court in *B. B. Chemical Co.* v. *Ellis,* 314 U. S. 495 (1942) at p. 498, where it was said:

> "... petitioner suggests that it is entitled to relief because it is now willing to give unconditional licenses to manufacturers on a royalty basis, which it offers to do. It will be appropriate to consider petitioner's right to relief when it is able to show that it has fully abandoned its present method of restraining competition in the sale of unpatented articles and that the consequences of that practice have been fully dissipated."

In *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488, 493 (1942), this Court said:

> "Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement and should do so at least until it is made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated."

The burden of proof doctrine has been put into action by the lower Courts in at least two cases. *Park-In Theatres Inc.* v. *Paramount-Richards Theatres Inc.*, 81 F. Supp. 466, 470 (D. Del. 1948); *United States* v. *Vehicular Parking, Ltd.*, 56 F. Supp. 297 (D. Del. 1944), and 61 F. Supp. 656 (D. Del. 1945).

Misuse and purge are, of course, antipodes. Purge takes place only when misuse ends. Like fire and kindle one destroys the other. USG was found guilty of a broad conspiracy in restraint of trade in which it used its patents as a means for the control of an entire industry (see pp. 6, 11-12, *supra*). USG continued to enforce its illegal patent license agreements which exacted many millions from National (see p. 57, n. 29, *supra*) through the acceptance of tainted royalty payments until the payment owing on March 20, 1948 (R. 607). Each payment was *per se* unlawful because each was made under a license agreement requiring payments of royalties on both unpatented and patented gypsum products. Payment was withheld by USG's licensees because of the decision of this Court on March 8, 1948, which condemned as illegal USG licensing practices and left the licensees no other choice (p. 7, note 7, *supra*). At least until March 20, 1948, USG continued to misuse its patents by asserting the vitality of its illegal patent license agreements.

An antitrust conspiracy is presumed to continue until its termination is established. *United States* v. *Oregon Medical Society,* 343 U. S. 326, 333 (1952); *United States* v. *W. T. Grant Co.,* 345 U. S. 629, 632, note 5 (1953). See also *Local 167, International Brotherhood of Teamsters* v. *United States,* 291 U. S. 293 (1934). Notwithstanding this well-established doctrine USG urges that there "can be no presumption in law of the continuance of illegal conduct" (USG Br. 51). USG had the burden, which it utterly failed to meet, of overcoming the presumption of continuance. This it could only do by showing that both in fact and in law it had purged itself of its patent misuse.

USG urged on the Court five facts of record, any one of which it claimed constituted evidence of purge prior to May 15, 1951 (R. 813; Finding 22, R. 1150-1151). The Court noticed that even though appellant had made a cautionary reservation, in a footnote on page 144 of its brief that the "five facts" of purge are "only illustrative and not the only or exclusive facts showing purge" (R. 813), USG was presenting "those matters which it regards as most potent in showing purge" (R. 1012). The fact is that neither in the Court below nor in this Court has it presented any other facts showing purge.

USG's first claimed act of purge was a tentative notice sent to its licensees in 1941 while the Government antitrust litigation was pending, to the effect that USG would suspend price fixing "until we decide again to exercise our right to do so" (Finding 22, R. 1150-1151). The Court below, in finding that this notice did not constitute purge, properly pointed both to USG's defiant reservation of its power to reestablish price fixing and, relying on the authority of the *Katzinger* and *MacGregor* cases mentioned above (p. 45, *supra*), to the fact that the price fixing provision was inseparably joined with other provisions found

violative of the act (Finding 22, R. 1151), so that the entire document remained illegal even after price-fixing was withdrawn.

USG argues that this finding is "meaningless" and "contrary to the authorities." It asserts that "non-use demonstrates purge; it is particularly pertinent in showing dissipation of any illegal effects" (USG Br. 54). USG's reservation of the power to resume price fixing when it pleased was never waived. It remained a condition under which the licensees were permitted to use USG's patents. Continuation of that condition was itself a misuse and the very antithesis of purge, since an unlawful agreement to fix prices is unlawful whether enforced or not. *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394, 397 note 3 (1947); *MacGregor* v. *Westinghouse Elec. & Mfg. Co.*, 329 U. S. 402; 405 note 3 (1947). See also *United Shoe Machinery Corp.* v. *United States*, 258 U. S. 451, 458 (1922); *F. C. Russell Co.* v. *Consumer's Insulation Co.*, 226 F. 2d 373 (3rd Cir. 1955).

Furthermore, in none of the cases on which USG relies was an entire industry organized as was the gypsum industry in the case at bar. Thus, the effects of the misuse in each case could be dissipated and purge thereby effected by "a patentee's affirmative, unilateral action to cease or terminate the alleged patent misuse" (USG Br. 54). In the instant case, however, as this Court has recognized, the effects of the misuse could not be dissipated simply by the elimination of the offending clause of the license agreement. And see *Hoague-Sprauge Corp.* v. *Bird & Son*, 91 F. Supp. 159, 163 (D. Mass. 1950), cited in Appellant's Brief, page 56.

The pertinent question is whether USG showed that it purged itself prior to, or during the period of, non-payment by National which ended with the entry of the Final De-

cree in 1951 (p. 7, note 7, *supra*). National does not have to rely on the fresh misuse which the Court below found by virtue of the suits commenced by USG in 1953. But if USG in 1953 was contumaciously prepared to defy the adjudication contained in Article IV of the Final Decree, its protestation of an earlier purge must be dealt with skeptically. This is particularly true in relation to other "acts" claimed by USG to constitute purge, which are not acts at all, but mere descriptions of a subjective, compliant frame of mind.

The second claim of purge is that when the licensees ceased paying royalties, USG acquiesced in their non-payment (R. 813). The suits to recover the royalties under the agreements and this appeal show that the acquiescence, whatever operative legal meaning it might have had, never took place, or, having taken place, was abandoned at the precise moment in time when USG reached its decision to flout the Decrees of 1949 and 1951.

National stopped paying royalties two days after this Court's decision that the license agreements were illegal (R. 607). Acquiescence under the force of a decision of this Court was not a purging act by USG. As is shown in the Statement of the Case, *supra* (pp. 7-8), after remand to the District Court, proceedings were had, summary judgment granted, and hearings were conducted as to the proposed form of judgment. In the course of these hearings USG proposed time and again that only the minimum price provisions of the patent licenses should be declared to be illegal. Throughout the summer of 1949, briefs and arguments proceeded, and finally a Decree was entered on November 7, 1949 by the District Court (p. 9, *supra*). USG does not assert that a single act of purge took place at any time subsequent to the decision of this Court on March 8, 1948 and prior to the Decree of November 7,

1949, except as it now discloses a belated description of its state of mind.

As an incident of the November 1949 Decree, USG drew up new forms of license agreements "in connection with consideration of a form of a decree" (R. 813). These unsatisfactory forms of license agreement were never actually used but they are relied upon by USG as its third claim of purge (R. 813). It did not tender these agreements for commercial acceptance by its licensees, and it was not even proposed that the agreements become effective until the Final Decree was entered (Finding 22, R. 1151). Nor did the proposed agreements conform in substance with what was ultimately approved by this Court in 340 U. S. 76, for example, the proposed agreement required the licensee to supply price and quantity figures and this requirement was deleted by the Court (R. 1014, Finding 22, R. 1151, see p. 14, *supra*). Since the inadequate proposed agreements could not have become effective until May 15, 1951, when the Final Decree was entered, they cannot possibly show purge prior to that date.

The fourth claim to purge made by USG was that it reached an unacted-upon decision not to appeal the District Court's 1949 decision unless the Government itself appealed (R. 814). USG in fact appealed on very different questions from those posed by the Government, and, consequently, this subjective nicety can have had no objective effect (Compare R. 505 *with* R. 509). If it be true, as USG now asserts, that its fourth claim of purge was misunderstood by the Court below, and USG was relying on the 1949 adjudication as purging it (USG Br. 55) this claim could have no meaning during National's non-payment period since the 1949 adjudication did not become embodied into a Final Decree enjoining USG from further restraint of trade until May 15, 1951.

It is not even asserted that any affirmative act of purge on the part of USG took place during the period from November 1949 to May 15, 1951. This circumstance disposes not only of the fourth claim but also of the fifth, and final claim of purge. This claim is that this Court, by its injunction of May 29, 1950 against enforcing the price provisions, somehow cured USG's pervasive restraints of trade (R. 814). This Court's narrow injunction of May 29, 1950, could not purge the broad misuse of USG. No claim is made that anything was done affirmatively by USG relevant to a purge between May 29, 1950 and May 15, 1951, the date of the Final Decree.

The lower Court found that these five claimed acts of purge, even if true, could not in law constitute a purge of USG's patent misuse (Finding 22, R. 1150; Conclusion 11, R. 1157). The very authorities on which USG relies as indicating it has purged itself (USG Br. 56-59) show, on the contrary, that USG has utterly failed to meet the burden imposed upon it. (See p. 72, *supra.*)

C. *USG having failed below to offer proof of purge sufficient in law had no right to a hearing for the purpose of taking testimony concerning purge.*

Although all of the specific claims of purge made in the Court below by USG were correctly found by the Court to be insufficient in law (pp. 71 to 75, *supra*), and although USG failed to allege any other facts which might constitute purge by it, nevertheless, USG now urges that the Court below "erroneously decided the issues of misuse and purge during the 1948-1951 period without receipt of any evidence" (USG Br. 23, 48-62).

This is not a case where misuse is being injected into a patent infringement suit by an alleged infringer who raises for the first time factual issues as to misuse and

purge. This Court had found in this case the most sweeping misuse by USG of patents (see pp. 66-67, *supra*). The question was whether USG had purged itself during the period from March 10, 1948 until May 15, 1951, when the Final Decree was entered. In order to help USG, therefore, purge would have had to be shown during the three year period while the proceedings were pending before this Court on appeal or before the lower Court on reconsideration and formulation of a decree.[32]

Except for the five claims discussed above (pp. 71-75, *supra*) no specific matter of any kind was asserted as constituting a purge which might have been operative during this period. USG had ample opportunities to offer alleged facts constituting purge which it would undertake to prove if a hearing on purge were afforded. Even on this appeal, although it complains that the lower Court treated its five facts of record as "the only evidence of purge" (USG Br. 54) it still makes no specific claims to the existence of other facts which, if proved, might establish purge. It would have

---

32 This Court rendered its decision on March 8, 1948 (333 U. S. 364) and denied a rehearing on April 5, 1948 (333 U. S. 869). Thereafter, beginning on June 8, 1948, the case was again before the District Court where numerous briefs and memoranda were filed by all parties, in connection with the United States' motion for summary judgment, the offers of proof, suggested findings of fact and the form and contents of the decree to be entered. After a hearing by the District Court on July 14, 1949, further memoranda were submitted up to August 12, 1949 (p. 8, *supra*). The Court entered its decree on November 7, 1949 (p. 9, *supra*). Both the United States and USG appealed, and on May 29, 1950, this Court dismissed USG's appeal (339 U. S. 959, 969) and noted probable jurisdiction in the appeal of the United States (339 U. S. 960). The case was argued on October 19, 1950 and decided on November 27, 1950 (340 U. S. 76). Once again, the case was before the lower Court from January 4, 1951 when the mandate was filed, until May 15, 1951 when the final decree was entered (p. 12, *supra*).

been a waste of time for the Court below to have taken testimony on the five specific claims made, for even if proved they would be insufficient in law.[33] The failure of appellant to specify—below or here—any other matters which it claims would operate as a purge if proven constituted an effective surrender of any serious claim to the need for the taking of evidence. No right to a hearing existed because there was present no genuine issue of material fact. See 6 *Moore's Federal Practice* (2d Ed.) 2001 *et seq.* and cases cited.

The proceedings below presented the typical situation for the application of summary judgment principles.[34] It is now well-decided that where a patentee seeks equitable relief and a continuing misuse of the patent is established as a matter of law, summary judgment may be rendered against the patentee. 6 *Moore's Federal Practice* (2d Ed.) p. 2246, citing *Morton Salt* v. *G. S. Suppiger Co.*, 314 U. S. 488 (1942); *Lincoln Electric Co.* v. *Linde Air Products Co.*, 171 F. 2d 223 (6th Cir. 1948). Identical considerations should deter this Court from remanding the proceeding for the taking of further testimony.

---

33 They were described by USG as facts "on the record" (R. 813).

34 When, in an action to recover royalties under a patent licensing agreement, the only issue was a legal one as to the validity of its provisions, summary judgment for the licensee was said to be proper where the provisions are invalid. *Park-In Theatres* v. *Paramount-Richards Theatres*, 90 F. Supp. 730 (D. Del., 1950), *aff'd* 185 F. 2d 407 (3rd Cir., 1950), *cert. denied*, 341 U. S. 950 (1951).

V

The District Court correctly ruled that USG's suits constituted a fresh misuse because they sought to enforce the illegal license agreements.

The District Court ruled that USG's suits, insofar as they sought to enforce its illegal license agreements, constituted a fresh misuse, which barred all claims against all petitioners so long as such suits were pending. (Conclusion 13, R. 1157.)

It will be recalled that Newark and Ebsary, unlike National and Certain-teed, did not take a license from USG after entry of the 1951 Decree (R. 607). Therefore USG's claims against Newark and Ebsary covered the period from 1948 to the date of the filing of the complaints against them (February 27, 1953) (R. 622, 634). This fresh abuse ruling was particularly important only to Newark and Ebsary, as it was the sole ground on which USG's post-decree claims against them were ordered to be dismissed by the Court below.

This holding of fresh abuse, of course, if correct, would also bar all USG claims against National for the pre-decree period as well. *Morton Salt Co.* v. *G. S. Suppiger Co.* (*supra*). In view of the many grounds which sustain National's position up to May 15, 1951 (Points II, III and IV, *supra*) we do not elaborately argue the correctness of this ruling below which carries the misuse right up to the filing of the USG complaints. Certainly, the ruling is novel. But so is USG's doggedness in seeking to enforce its license agreements even after they had been adjudicated "illegal, null and void" after this long and historic litigation.[35]

---

35 Thus, on September 8, 1953 in a brief answering petitioners' briefs in the District Court, USG, notwithstanding the prior deci-

We do, however, point out briefly to this Court that Section 271(d) of Title 35 and Rule 8 of the Rules of Civil Procedure upon which USG relies, do not conflict with the fresh abuse ruling.[36]

A. *The fresh abuse ruling does not conflict with Section 271(d) of Title 35.*

Title 35, U. S. C. Sec. 271(d), insofar as is here relevant, provides:

> "No patent owner *otherwise entitled to relief for infringement* . . . shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having . . . (3) sought to enforce his patent rights against infringement or contributory infringement." [37] (Emphasis added)

USG argues that since the mere bringing of a patent infringement suit is not in itself a misuse, *a fortiori*, a suit on an illegal license agreement is not itself a misuse (USG Br. 45). This contention was advanced for the first time on USG's motion for a new trial, and was disposed of by the Trial Court's memorandum opinion of June 30, 1955, as follows (R. 1337):

---

sions of this Court, still asserted, "Each individual license agreement in this case constituted a valid and binding contract . . ." (p. 87). It tried to escape the sting of Article IV of the Decree by the claim that it "was the concerted action among the gypsum board manufacturers" which prompted Article IV, arguing, that "the adjudication of law violation was not by reason of any inherent illegality in the terms of the contract . . ." (p. 88).

36 USG urges also that *Hartford-Empire, supra*, p. 53, conflicts with the fresh abuse ruling. Our discussion *supra*, pp. 54-59 shows that nothing therein bears upon the fresh misuse ruling.

37 This codification became effective January 1, 1953. Thereafter, USG sued on its illegal agreements and for infringement.

"The vital words for us . . . are 'otherwise entitled.' Patents are classical instruments in conspiracies and combinations to violate the Sherman Act. Can it be that where a designated misuse of patents—here patent license agreements—has been adjudged to be violative of that Act that thereafter the patentee-licensor is absolutely protected by paragraph (d)(3) from the defense of misuse in recovering upon those adjudged unlawful agreements? Can it be possible that Congress intended, by paragraph (d), to give to a patentee a protection superior to the broad public policy of the Sherman Act?"

It answered its own questions by stating:

"We cannot believe that paragraph (d) was intended to or can properly be construed as nullifying the power of this Court to effectuate the purposes of an anti-trust decree. In short USG is *not* 'otherwise entitled' to come within paragraph (d)(3)."

From the face of the statute it is plain that it merely lays down the principle that a patentee *otherwise entitled to relief* is not guilty of misuse by merely enforcing his patent rights against *infringement or contributory infringement.* That, of course, is not an accurate description of what USG did in its suits. Its infringement claim constituted only one of five or more counts.

USG errs in claiming that a suit on a license agreement is an enforcement of a patent right within the meaning of the statute (USG Br. 44). The statute is limited solely to enforcing "rights against infringement." A suit on a license agreement is on a contract; a suit for infringement is for a tort.[38] The distinction is basic in the whole patent field.

---

38 See note 23, p. 51, *supra.*

It was the suit on the illegal license agreement which the lower Court primarily relied upon as showing continued misuse during the post-decree period, and consequently USG can get no comfort from the statute.

Moreover, the legislative history of Section 271(d) shows that USG has distorted the meaning of the statute. Section 271 of the Patent Act of 1952 developed as a result of the *Mercoid* cases (*Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661 (1944) and *Mercoid Corp.* v. *Minneapolis Honeywell Regulator Co.*, 320 U. S. 680 (1944)). In *Mercoid* this Court held that a patentee guilty of misuse could not succeed in a contributory infringement action. Language in the *Mercoid* opinions raised the question whether a patentee, otherwise free of any misuse of his patent, could be said to be attempting to extend his patent grant and thereby misusing it merely by bringing a suit for contributory infringement. The *Mercoid* cases were interpreted by some members of the patent bar to forbid any contributory infringement suits (see, e.g., Giles S. Rich "Infringement Under Section 271 of the Patent Act of 1952," 35 J. P. O. S. 476-500 (July 1953), 21 Geo. Wash. L. Rev. 521-46 (April 1953)), and at least one decision directly so held. *Stroco Products* v. *Mullenbach*, 67 U. S. P. Q. 168 (S. D. Cal. 1944).[39] See also *Master Metal Strip Service* v. *Protex Weatherstrip Mfg. Co.*, 169 F. 2d 700 (7th Cir., 1948), *cert. denied* 335 U. S. 898 (1948).

Because of the doubt and confusion as to the state of the law caused by the *Mercoid* cases and conflicting decisions resulting therefrom, the New York Patent Law As-

---

39 Section 271(d) overruled this case, but only in its limited field. Cf. *Kobe* v. *Dempsey Pump Co.*, 198 F. 2d 416, 424-25 (10th Cir. 1952), *cert. denied* 344 U. S. 837 (1952).

sociation sponsored various bills which resulted in the enactment of Section 271.[40]

The resulting statute, Section 271, was designed to reassert the right to sue for contributory infringement. Subsection (d) is ancillary to subsections (b) and (c) which define and limit contributory infringement of a patent. Reviser's Note to Section 271. Subsection (d)'s purpose, in the words of the Judiciary Committee Report, is to provide "that one who merely does what he is authorized to do by statute is not guilty of misuse of the patent." Sen. Rep. No. 1979, 82nd Cong. 2d Sess. p. 8 (1952); H. R. Rep. No. 1923, 82nd Cong. 2d Sess. p. 9 (1952).[41]

B. *The fresh abuse ruling does not conflict with Rule 8.*

USG asserts that the fresh abuse ruling conflicts with Rule 8, which permits assertion of the same claim in several alternative counts (USG Br. 41-44). Under Rule 8, it is

---

40 See Hearings Before Committee on the Judiciary on H. R. 5988, 80th Cong. 2d Sess. (1948); Hearings Before Committee on the Judiciary on H. R. 3866, 81st Cong. 1st Sess. (1949); Hearings Before Committee on Judiciary on H. R. 3760, 82nd Cong. 1st Sess. (1951).

41 As Mr. Rich, who spoke for the Patent Law Association in sponsoring the bills before the Judiciary Committee, has elsewhere stated:

> "Clause (3) says 'sought to *enforce* his patent rights against infringement or contributory infringement,' having reference to suits under paragraph (a), (b) or (c), and is directed to the situation in cases which have arisen in which the courts have said that the mere bringing of a suit against a contributory infringer is an attempt to extend the monopoly and hence a misuse of the patent because the objective is to monopolize the sale of 'unpatented' wares" (35 J. P. O. S. at p. 494).

For a discussion of the development of Section 271 see 66 Harvard Law Rev. 909-18 (1953).

said, the "final theory of recovery is for the court rather than pleader" (*id.* 41); that if USG confined its claims to infringement or *quantum meruit,* such claims might be defeated because USG failed to assert a valid claim under the contracts adjudicated illegal, null and void (*id.* 42).

This argument proves too much. If the Final Decree contained a specific injunction against enforcement of USG's illegal contracts, Rule 8 would not constitute a defense to a contempt action. The declaratory provisions of a Decree must also be respected. Rule 8 was not intended to permit the filing of a pleading in violation of a Court's decree. Nor can there be any doubt that USG was seriously pressing its claims under its illegal contracts, because, in its answer to the petitions in the District Court, USG averred that "in essence" its suits "in other District Courts . . . constitute actions (1) to recover unpaid royalties against said defendants under their respective license agreements. . . . " (R. 786).

CONCLUSION

For the foregoing reasons the decision of the statutory three-judge District Court enforcing, interpreting and modifying its Decree of May 15, 1951 should be affirmed.

Respectfully submitted,

SAMUEL I. ROSENMAN
ELMER E. FINCK
SEYMOUR D. LEWIS
MALCOLM A. HOFFMANN
SEYMOUR KRIEGER
GILBERT S. EDELSON
Attorneys for
National Gypsum Company

October, 1956

APPENDIX A

IN THE UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF IOWA

CENTRAL DIVISION

UNITED STATES GYPSUM COMPANY, an Illinois corporation, Plaintiff, *vs.* NATIONAL GYPSUM COMPANY, a Delaware corporation, Defendant.	Civil Action No. 564

COMPLAINT

Plaintiff, United States Gypsum Company, for complaint against defendant, National Gypsum Company, alleges as follows:

Count I

FOR A FIRST SEPARATE AND DISTINCT CLAIM:

1. Plaintiff, United States Gypsum Company (referred to hereinafter as U. S. Gypsum), is a corporation duly organized and existing under and by virtue of the laws of the State of Illinois, having its principal place of business at Chicago, Illinois. U. S. Gypsum has qualified as a foreign corporation to do business in the State of Iowa and for many years has been and is doing business within the Northern District of Iowa.

2. Defendant, National Gypsum Company (referred to hereinafter as National), is a corporation duly organized and existing under and by virtue of the laws of the State

of Delaware. National has qualified as a foreign corporation to do business in the State of Iowa and has a regular and established place of business in Webster County, State of Iowa. For many years National has been and is doing business within the Central Division of the Northern District of Iowa.

3. This Court has jurisdiction by reason of the fact that plaintiff, U. S. Gypsum, is a corporation incorporated under the laws of the State of Illinois, and that defendant, National, is a corporation incorporated under the laws of the State of Delaware, and that the matter in controversy exceeds, exclusive of interests and costs, the sum of Three Thousand Dollars ($3,000). This civil action is being brought in a judicial district in which defendant is a resident within the meaning of Section 1391 of Title 28, U. S. Code.

4. On October 17, 1929, U. S. Gypsum, as Licensor, and National, as Licensee, entered into a license agreement under the terms of which, and for the considerations therein set forth, National was licensed to make, use and sell gypsum wallboard, gypsum lath, gypsum sheathing and other similar boards (all of which are referred to collectively hereinafter as gypsum board) embodying or made by the use of the inventions set forth and claimed in those certain Letters Patent and Applications for Letters Patent described in said agreement, and including United States Letters Patent thereafter granted upon any of said Applications, for the full term of said Letters Patent, all as in said license agreement set forth, a true copy of which agreement is attached hereto as Exhibit A to this Count and made a part hereof.*

5. On October 8, 1935, Letters Patent of the United States No. 2,017,022, relating to cementitious material, was

* Exhibit A referred to in this Count has not been printed herein but is available at 1947 R. p. 4355.

duly and legally granted to U. S. Gypsum as assignee on Application Serial No. 733,197 theretofore filed by Carlisle K. Roos on August 20, 1924, which application was included in the said license agreement of October 17, 1929, and said Letters Patent No. 2,017,022 duly became Letters Patent under said license so granted to National.

6. It was provided in said license agreement that for the privilege of using said patents National would pay to U. S. Gypsum certain amounts as therein set forth, among them an amount, referred to therein as a license fee or royalty, equivalent to one per cent (1%) of National's selling price of gypsum board manufactured and sold by it between July 8, 1941, and the date of the expiration of the last to expire of any patent granted or issued on said Application Serial No. 733,197, upon which Application said Letters Patent No. 2,017,022 was issued as aforesaid on October 8, 1935.

7. Commencing with the license fees or royalties under said license agreement for the month of February, 1948 (payable under said license agreement on or before the 20th day of March, 1948) and continuing to May 15, 1951, National failed and refused to pay any such license fees or royalties to U. S. Gypsum, although during the whole of said period National continued under its said license to manufacture and sell gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022.

8. There is now due and payable to U. S. Gypsum by National as license fees or royalties under said license agreement an amount equal to one per cent (1%) of the selling price of National of all of said gypsum board so manufactured and sold by it between February 1, 1948, and

May 15, 1951, embodying or made by the use of inventions disclosed and claimed in said Letters Patent No. 2,017,022.

9. Pursuant to the provisions of said license agreement of October 17, 1929, National as such Licensee, during the period commencing on February 1, 1948, and ending on May 14, 1951, manufactured and sold great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022 and sold the same for an amount aggregating, to-wit: One Hundred Sixty Million Dollars ($160,000,000), for which said National has become indebted to U. S. Gypsum for license fees or royalties aggregating One Million Six Hundred Thousand Dollars ($1,600,000), which said license fees and royalties said National has wholly failed and refused to pay in whole or in part, although often requested so to do.

Count II

FOR A SECOND SEPARATE AND DISTINCT CLAIM:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1, 2, 3, 4, 5 and 6 of Count I of the Complaint with like effect as if herein fully set forth.

2. On or about February 1, 1948, National discontinued the payment of said license fees or royalties but nevertheless continued under its said license to manufacture and sell gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022. U. S. Gypsum and National each having determined to discontinue compliance with the provisions said license agreement, agreed, and it was so understo between them, that National would account for and pay

to U. S. Gypsum under said license agreement the said license fee or royalty of one per cent (1%) of National's selling price for gypsum board actually manufactured and sold by it embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022. It was further understood and agreed that no further performance would be required by either party under said license agreement except that National could continue to use said patents thereunder and would account for and pay to U. S. Gypsum all such license fees or royalties for the actual use of said patents as aforesaid. National continued to so manufacture and sell said gypsum board under its said license until May 15, 1951, and thereupon became and now is indebted to U. S. Gypsum in an amount therefor equal to one per cent (1%) of its selling price of all such gypsum board manufactured and sold by it between February 1, 1948, and May 15, 1951, embodying or made by the use of the inventions and improvements disclosed and claimed in said Letters Patent No. 2,017,022.

3. National, during the period commencing February 1, 1948, and ending May 14, 1951, manufactured and sold great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022 and sold the same for an amount aggregating, to-wit: One Hundred Sixty Million Dollars ($160,000,000) for which National has become indebted to U. S. Gypsum for license fees or royalties in an amount aggregating One Million Six Hundred Thousand Dollars ($1,600,000), which said license fees or royalties so payable as aforesaid National has wholly failed and refused to pay in whole or in part, although often requested so to do.

Count III

FOR A THIRD SEPARATE AND DISTINCT CLAIM:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1, 2 and 3 of Count I of the Complaint with like effect as if herein fully set forth.

2. On October 17, 1929, U. S. Gypsum, as Licensor, and National, as Licensee, entered into a license agreement under the terms of which, and for the considerations therein set forth, National was licensed to make, use and sell gypsum wallboard, gypsum lath, gypsum sheathing and other similar boards (all of which are referred to collectively hereinafter as gypsum board) embodying or made by the use of the inventions set forth and claimed in those certain Letters Patent and Applications for Letters Patent described in said agreement, and including United States Letters Patent thereafter granted upon any of said Applications, for the full term of said Letters Patent, all as in said license agreement set forth.

3. On October 8, 1935, Letters Patent of the United States No. 2,017,022, relating to cementitious material, was duly and legally granted to U. S. Gypsum as assignee on Application Serial No. 733,197 theretofore filed by Carlisle K. Roos on August 20, 1924, which application was included in said license agreement of October 17, 1929, and said Letters Patent No. 2,017,022 duly became Letters Patent under said license so granted to National.

4. It was provided in said license agreement that for the privilege of using said patents National would pay to U. S. Gypsum certain amounts as therein set forth, among them an amount, referred to therein as a license fee or royalty, equivalent to one per cent (1%) of National's sell-

ing price of gypsum board manufactured and sold by it between July 8, 1941, and the date of the expiration of the last to expire of any patent granted or issued on said Application Serial No. 733,197, upon which Application said Letters Patent No. 2,017,022 was issued as aforesaid on October 8, 1935.

5. On or about the 1st day of February, 1948, National repudiated its said license agreement of October 17, 1929, and discontinued the payment of all license fees or royalties payable or to be paid thereunder and refused to be bound by any of the provisions thereof. U. S. Gypsum acquiesced in such repudiation and thereafter each of the parties thereto treated the license agreement as rescinded and no action was subsequently taken by either of them to comply with or to enforce any of the provisions thereof or to require the other to perform the same.

6. National then and there at its request made use of U. S. Gypsum's Letters Patent No. 2,017,022 in the manufacture and sale of gypsum board embodying or made by the use of the inventions disclosed and claimed therein and continued to so use the same until May 15, 1951. National in consideration thereof promised to pay to U. S. Gypsum the reasonable value of the use of plaintiff's Letters Patent No. 2,017,022 from the time of such repudiation to May 15, 1951.

7. National, during such period, manufactured great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022, and sold the same for an amount aggregating, to-wit: One Hundred Sixty Million Dollars ($160,000,000). The fair and reasonable value of such use of said Letters Patent is not less than one per cent (1%) of National's said selling price of such gypsum board so manufactured and sold by it as aforesaid.

8. National thereupon became indebted to U. S. Gypsum in an amount aggregating, to-wit: One Million Six Hundred Thousand Dollars ($1,600,000), being the fair and reasonable value of the use of said Letters Patent, and being so indebted National, in consideration thereof, then and there promised U. S. Gypsum to pay it the said sum of money, on request. Yet National, though requested, has not paid the same or any part thereof to U. S. Gypsum but refuses so to do, to the damage of U. S. Gypsum of One Million Six Hundred Thousand Dollars ($1,600,000).

Count IV

FOR A FOURTH SEPARATE AND DISTINCT CLAIM:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1, 2 and 3 of Count I of the Complaint with like effect as if herein fully set forth.

2. For that whereas the defendant National on the 28th day of January, 1953, in the Northern District of Iowa, Central Division, and elsewhere throughout the United States, was indebted to the plaintiff U. S. Gypsum in the sum of One Million Six Hundred Thousand Dollars ($1,600,000) for the use of the plaintiff's Letters Patent of the United States No. 2,017,022 in the manufacture and sale of its gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent, during the period between February 1, 1948 and May 15, 1951 used and enjoyed by the defendant National at its request, and being so indebted, the defendant National, in consideration thereof, then and there promised the plaintiff U. S. Gypsum to pay it the said sum of money, on request. Yet the defendant National, though requested, has not paid the same, or any part thereof, to the plaintiff U. S. Gypsum,

but refuses so to do; to the damage of the plaintiff U. S. Gypsum of One Million Six Hundred Thousand Dollars ($1,600,000).

Count V

FOR A FIFTH SEPARATE AND DISTINCT CLAIM:

1. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in paragraphs 1 and 2 of Count I of the Complaint, with like effect as if herein fully set forth.

2. This Court has jurisdiction by reason of the fact that this is a civil action based upon United States Letters Patent No. 2,017,022, dated October 8, 1935, arising under the patent laws of the United States, as hereinafter more fully appears. This action is being brought in a judicial district where defendant has committed acts of infringement and has a regular and established place of business within the meaning of Section 1400 of Title 28, U. S. Code.

3. On October 8, 1935, Letters Patent of the United States No. 2,017,022, relating to cementitious material, was duly and legally granted to U. S. Gypsum as assignee on the Application Serial No. 733,197, theretofore filed by Carlisle K. Roos on August 20, 1924, and all right, title and interest in said United States Letters Patent No. 2,017,022 remained in U. S. Gypsum during the entire life of said Letters Patent.

4. National has, within the last six years prior to the filing of this Complaint, and since the issuance of said Letters Patent, beginning on February 1, 1948, and continuing until May 15, 1951, without authority or permission of U. S. Gypsum, infringed said Letters Patent No. 2,017,022 wilfully and deliberately by making, selling and using within

the United States, including the use and sale thereof within the Northern District of Iowa, Central Division, gypsum board (including but without limitation gypsum wallboard, gypsum lath, gypsum sheathing, and other similar boards containing a cellular core composed of cementitious material) embodying or made by the use of, the inventions disclosed and claimed in said Letters Patent.

5. National, during all periods pertinent to the Complaint, has had full knowledge of Letters Patent No. 2,017,022 and of the fact that all right, title and interest therein and thereto was in U. S. Gypsum, but despite said knowledge, National continued and persisted in such infringement, as aforesaid.

6. By reason of the aforesaid infringement, National has derived unlawful gains and profits which plaintiff would otherwise have received but for the aforesaid infringement, to the damage of the plaintiff in the sum of One Million Six Hundred Thousand Dollars ($1,600,000).

WHEREFORE, plaintiff, U. S. Gypsum, prays as follows:

(a) If the Court finds that defendant, National, is indebted to plaintiff, U. S. Gypsum, as alleged in either Counts I, II, III or IV hereof, that judgment be entered against said defendant for the sum of One Million Six Hundred Thousand Dollars ($1,600,000), together with interest and costs of this suit;

(b) Or in the alternative, if the Court finds that defendant, National, has infringed U. S. Gypsum's Letters Patent No. 2,017,022, as charged in Count V hereof, that judgment be entered against the defendant for due compensation for making, using, and selling said invention, not less than a reasonable royalty therefor,

in the sum of One Million Six Hundred Thousand Dollars ($1,600,000), together with costs of this suit.

/s/ Cranston Spray
Cranston Spray

/s/ Robert C. Keck
Robert C. Keck

MacLeisch, Spray, Price & Underwood
134 South LaSalle Street
Chicago 3, Illinois

/s/ Arthur A. Olson
Arthur A. Olson

Thiess, Olson, Mecklenburger,
vonHolst and Coltman
77 West Washington Street
Chicago, Illinois

/s/ Bert B. Burnquist
Bert B. Burnquist

Burnquist, Helsell & Burnquist
State Bank Building
Fort Dodge, Iowa

Attorneys for the Plaintiff

Amended Complaint

IN THE

UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF IOWA—CENTRAL DIVISION

Civil Action No. 564

UNITED STATES GYPSUM COMPANY, an Illinois Corporation,

Plaintiff,

—vs.—

NATIONAL GYPSUM COMPANY, a Delaware Corporation,

Defendant.

AMENDMENT TO COMPLAINT

Plaintiff, United States Gypsum Company, hereinafter referred to as U. S. Gypsum, having heretofore, on January 28, 1953, filed its Complaint herein, Civil Action No. 564, against defendant, National Gypsum Company, hereinafter referred to as National, and National not having heretofore filed a responsive pleading, U. S. Gypsum now amends, pursuant to Rule 15(a) of the Federal Rules of Civil Procedure, its Complaint as follows:

I. *Amend Count I of the Complaint by adding five additional paragraphs immediately following paragraph 9 on page 4 of the Complaint, such additional paragraphs to read as follows:*

10. On or about the 30th day of December, 1935, National, as the resulting or surviving corporation of a merger effected under the laws of the State of Delaware on or about

that date between National and Universal Gypsum & Lime Co., a Delaware corporation (hereinafter referred to as Universal) acquired, among other assets, certain gypsum board plants of Universal, together with that certain license agreement entered into on November 5, 1929, between U. S. Gypsum, as licensor, and Universal and its receivers, as the licensee, under which the licensee therein was licensed to manufacture and sell gypsum board embodying or made by the use of the inventions set forth and claimed in the same letters patent and applications for letters patent as those described in said license agreement of October 17, 1929, between U. S. Gypsum and National, including letters patent thereafter granted upon any of said applications, for the full term of said letters patent. Said license agreement of November 5, 1929, included said Application Serial No. 733,197 upon which Letters Patent of the United States No. 2,017,022 was duly and legally granted to U. S. Gypsum as aforesaid, which thereupon became letters patent under said Universal license of November 5, 1929. During the period of the events mentioned in this Count, from February 1, 1948, to May 15, 1951, and for some time prior thereto, the provisions of the licenses under said letters patent and applications for letters patent contained in said National agreement of October 17, 1929, and said Universal agreement of November 5, 1929, including the provision for payment by licensee of a license fee or royalty of one per cent (1%) of licensee's selling price of gypsum board manufactured and sold by it, were identical.

11. A true copy of said Universal license agreement of November 5, 1929, is attached hereto as Exhibit B to this Count and made a part hereof.

12. During the period when both of said licenses provided for payment by the licensee of a license fee or royalty of

[fol. 1145] one per cent (1%) of licensee's selling price of gypsum board manufactured and sold by it, National paid said license fee or royalty of one per cent (1%) of its selling price of gypsum board manufactured and sold by it until February 1, 1948, and plaintiff is informed and believes, and on such information and belief states the fact to be, that National allocated a part of such license fees or royalties to the said National license of October 17, 1929, and a part thereof to said Universal license of November 5, 1929, and that the proportion so allocated by National to said Universal license of November 5, 1929, was the amount of the license fees or royalties due on such gypsum board manufactured in the plants acquired by National from Universal in the merger of December 30, 1935, as aforesaid.

13. National, during the period commencing on February 1, 1948, and ending on May 14, 1951, manufactured in said gypsum plants acquired by it from Universal as aforesaid, great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022, and sold the same for an amount aggregating, to-wit: Seventy Million Dollars ($70,000,000), for which National, upon the basis of such allocation of license fees or royalties, has become indebted to U. S. Gypsum for license fees or royalties aggregating Seven Hundred Thousand Dollars ($700,000), which said license fees and royalties said National has wholly failed and refused to pay in whole or in part although often requested so to do.

14. Plaintiff in any event claims only a single license fee or royalty of one per cent (1%) of National's selling price [fol. 1146] of gypsum board embodying or made by the use of Letters Patent No. 2,017,022, manufactured and sold by National during said period from February 1, 1948, to May 15, 1951.

Amended Complaint

II. *Amend Count II of the Complaint by adding three additional paragraphs immediately following paragraph 3 on page 5 of the Complaint, such additional paragraphs to read as follows:*

4. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in said additional paragraphs 10, 11 and 12 as set forth in section I of this amendment to the Complaint, with like effect as if herein fully set forth.

5. On or about February 1, 1948, National discontinued the payment of said license fee of one per cent (1%) of its selling price of gypsum board manufactured and sold by it but nevertheless continued to manufacture in its several plants, including said plants acquired from Universal, gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022 as aforesaid and to sell the same. U. S. Gypsum and National, each having determined to discontinue compliance with the provisions of said license agreement of November 5, 1929, agreed, and it was so understood between them, that National would account for and pay to U. S. Gypsum the said license fee or royalty of one per cent (1%) of National's selling price for gypsum board actually manufactured by it in its several plants, including said plants acquired from Universal, and embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022. It was further understood and [fol. 1147] agreed that no further performance would be required by either party under said license agreement of November 5, 1929, except that National could continue to use said patents and would account for and pay to U. S. Gypsum all such license fees or royalties for the actual use thereof as aforesaid.

Amended Complaint

6. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in said additional paragraphs 13 and 14 as set forth in section I of this amendment to the Complaint, with like effect as if herein fully set forth.

III. *Amend Count III of the Complaint by adding two additional paragraphs immediately following paragraph 5 on page 7 of the Complaint, such additional paragraphs to read as follows*:

5a. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in said additional paragraphs 10 and 12 as set forth in section I of this amendment to the Complaint, with like effect as if herein fully set forth.

5b. At the same time National repudiated its said license agreement of October 17, 1929, to-wit, on or about the first day of February, 1948, it repudiated its said license agreement of November 5, 1929, and discontinued the payment of all license fees or royalties payable or to be paid thereunder and refused to be bound by the provisions thereof. U. S. Gypsum acquiesced in such repudiation and thereafter each of the parties thereto treated the said license agreement as rescinded and no action was subsequently taken by either of them to comply with or to enforce any of the provisions thereof or to require the other to perform the same.

[fol. 1148] IV. *Amend paragraph (a) of the Prayer, appearing on the last page of the Complaint, to read as follows*:

(a) If the court finds that defendant National is indebted to plaintiff U. S. Gypsum, as alleged in either Count I hereof as amended by section I of this Amendment, Count II hereof as amended by section II of this Amendment,

Count III hereof as amended by section III of this Amendment, or Count IV hereof, that judgment be entered against defendant for the sum of One Million Six Hundred Thousand Dollars ($1,600,000), together with interest and costs of this suit;

Cranston Spray, Robert C. Keck, MacLeish, Spray, Price & Underwood, 134 South LaSalle Street, Chicago 3, Illinois, Arthur A. Olson, Thiess, Olson Mecklenburger, vonHolst & Coltman, 77 West Washington Street, Chicago 2, Illinois, Bert B. Burnquist, Burnquist, Helsell & Burnquist, State Bank Building, Fort Dodge, Iowa, Attorneys for the Plaintiff.

[fol. 1149] [File endorsement omitted]

Office - Supreme Cou
FILED
NOV 5 19
JOHN T. FEY, Cl

IN THE

Supreme Court of the United States

OCTOBER TERM, 1956.

No. 11

UNITED STATES GYPSUM COMPANY,
Appellant,

vs.

NATIONAL GYPSUM COMPANY, ET AL.,
Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA.

REPLY OF APPELLANT.

BRUCE BROMLEY,
CRANSTON SPRAY,
ROBERT C. KECK,
JOHN D. CALHOUN,
HUGH LYNCH, JR.,
Attorneys for Appellant, United States Gypsum Company.

CRAVATH, SWAINE & MOORE,
15 Broad Street,
New York 5, New York,

MACLEISH, SPRAY, PRICE & UNDERWOOD,
134 South La Salle Street,
Chicago 3, Illinois,

MACLEAY, LYNCH & MACDONALD,
1625 K Street, N. W.,
Washington 6, D. C.,
Of Counsel.

INDEX.

	PAGE
I. Misuse	2
A. Background of Article IV, 1951 Final Decree	2
B. Background of USG compensation suits	6
C. 35 U. S. C., Section 271(d)	8
II. Right to Be Heard	9
III. Jurisdiction of Court Below	13
IV. Miscellaneous Matters	16
A. USG tender of lawful licenses in 1949	16
B. Gravamen of decision below	17
C. Sufficiency of *quantum meruit count*	19
D. True meaning of Hartford-Empire	21
E. Pre-1948 Payments for Use of USG Patents	23
V. Position of Government	24
Conclusion	25

Table of Cases.

Baltimore S. S. Co. v. Phillips, 274 U. S. 316 8

E. W. Bliss Company v. United States, 253 U. S. 187, 190 ..... 19, 20

Hartford-Empire Co. v. United States, 323 U. S. 386 ..... 18, 19, 21, 22, 23

Hartford-Empire Co. v. United States, 324 U. S. 570 ..... 18, 19, 21, 22, 23

Henry v. A. B. Dick Company, 224 U. S. 1 20

Hughes v. United States, 342 U. S. 353 18

Matarese v. Moore-McCormack Lines, 158 F. 2d 631 (2d Cir. 1946) 19

Morton Salt Co. v. G. S. Suppiger Co., 314 U. S. 488 .. 8

Texas & Pacific R. Co. v. Abilene Cotton Oil Co., 204 U. S. 426.....13, 14

United States v. Line Material Co., 333 U. S. 287..... 5

United States v. Oregon State Medical Society, et al., 343 U. S. 326, 334..... 11

United States v. Palmer, 128 U. S. 262.....19, 20

United States v. United States Gypsum Co., et al., 333 U. S. 364..... 11

United States v. United States Gypsum Co., et al., 339 U. S. 960..... 12

United States v. United States Gypsum Co., et al., 340 U. S. 76.....10, 11

MISCELLANEOUS CITATIONS.

Federal Rules of Civil Procedure (Rule 8)..... 8

15 U. S. C., Secs. 28 and 29.....14, 16

35 U. S. C., Sec. 271(d)..... 8

Final Decree, United States v. Hartford-Empire Co. (N. D. Ohio, Civ. Act No. 4426, October 31, 1945).. 21

69 C. J. S. 890..... 20

A. Corbin, "Waiver of Tort and Suit in Assumpsit", 19 Yale L. J. 221 (1910)..... 20

IN THE

Supreme Court of the United States

OCTOBER TERM, 1956.

No. 11.

UNITED STATES GYPSUM COMPANY,
Appellant,

vs.

NATIONAL GYPSUM COMPANY, ET AL.,
Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA.

REPLY OF APPELLANT.

Neither corporate appellees nor the Government dispute that the three substantial questions raised by this appeal are:

Whether it was error to hold, as the court below did,

1. that prosecution by USG of its compensation suits, pleading counts on the voided license agreements, is, as a matter of law, a misuse of patents;
2. that the issues of patent misuse, in the 1948-1951 period, raised in the petitions of corporate appellees, and denied by USG in its answers thereto, might be adjudicated without the taking of any evidence; and
3. that the court below had jurisdiction to enjoin prosecution by USG of compensation suits, pending in courts of competent jurisdiction.

Appellees only indirectly meet the USG contentions in respect of any of those questions. Therefore, because of the apparent differences between the parties in their conception of what is relevant to disposition of the questions raised on this appeal, it seems desirable briefly to restate the USG position in order that the respective contentions of the parties may be related specifically to that position.

I.

MISUSE.

A. Corporate appellees, but not the Government, contend that it was a misuse of patents for USG to institute compensation suits containing counts upon the voided license agreements (Natl. Br. 78-83; Cert. Br. 57). They contend that it was a misuse, although they do not state in what way such pleading amounts to an unlawful extension of the patent monopoly. Since they approve, however, this admittedly novel ruling of the court below, we may presume that they are satisfied simply to adopt the rationale of that court.

The theory of the court below seems to have been that it was a continuing misuse of patents by USG to have pleaded counts on the license agreements in the face of the language of Article IV of the 1951 final decree, which declared the licenses "illegal, null and void" (R. 1157, Conc. 13).

That holding can be based only on an unrealistic appraisal of the situation that USG faced when it brought its compensation suits. The record here provides a solid basis for entertainment of belief by USG in 1953 that Article IV of the 1951 final decree might merely have cancelled the license agreements as of its date of entry and, therefore, did not bar suits for royalties due under those agreements in the pre-1951 period.

Following its grant from the bench, in June 1948, of summary judgment in favor of the Government (R. 137-141), the court below requested that the parties submit drafts of proposed decrees. In November 1948, the Government submitted such a draft (R. 157-66).* Nowhere in the Government draft was it suggested that the license agreements were to be declared unenforceable, *in toto*. Both paragraphs "1" and "2" of Article VII thereof, clearly contemplated only a "cancellation" and bar of future performance under the license agreements. Indeed, the agreements were to have continuing vitality for as long as sixty days after entry of the final judgment (R. 163).

Thereafter, USG submitted a draft of proposed decree (R. 188-94). That draft, like the proposed decree of the Government, only provided for cancellation and termination of the license agreements upon entry of the final decree (R. 192).

Those draft decrees of the United States and USG were the only drafts before the district court when it sat on June 13, 1949, to hear argument upon the form of final decree.

In the course of that argument, several significant things happened. On June 14, 1949, both Mr. Dallstream, speaking for Certain-teed, among others, and Mr. Knuff, counsel for the Government, submitted amendments to the proposed decrees. Those amendments declared the patent license agreements "illegal, null and void" (R. 406-407, 992-993).

Mr. Finck, counsel for National, also urged in argument, June 14, 1949, that the license agreements be declared

* The proposed decree of the Government was filed November 28, 1948. However, on the 1950 appeal of the Government, the November 28, 1948 decree could not be located in the files of the court below and a copy was supplied by the Government, which copy was given the date of its filing, *i.e.*, April 19, 1950.

"null and void" (R. 348-360) and on June 16, 1949, submitted on behalf of National a proposed decree, declaring the license agreements "null and void" (R. 432).

Thus, the three sources from which the court below could possibly have derived the "illegal, null and void" language of the final decree are provided by the decrees and amendments proposed by the Government, National and Certain-teed.

It only remains to be determined, therefore, whether any of those parties in proposing the "null and void" language represented to the court below what the effect of such language should be upon suits by USG for royalties under the licenses. The fact is that each of those parties, either informed the court below (1) that inclusion of the "illegal, null and void" language was to be deemed equivalent to simple "cancellation", or (2) that the suggestion of declaring the agreements "illegal, null and void" was not in any sense based upon a desire to avoid license fees during the *pendente lite* period.

The language of Mr. Dallstream on this point runs as follows:

> "In order that United States Gypsum will have no misunderstanding of my position, I want them to know that my suggestion is in no sense based on any hope or desire on my part to get out of any license fees during any interim period * * *" (R. 992-993).

The position of the Government with respect to the import of the "illegal, null and void" language was set forth by Mr. Knuff, when he proposed amendment of the Government's draft decree. In that connection, he said:

> "On the other hand, when you are declaring them null and void, which I suggest under III, null and void could probably be considered as a synonym for cancellation * * *

Judge Jackson: "That would then be the date of the decree, would it, the date of filing?
Mr. Knuff: That is right." (R. 406-407.)

The Government never repudiated that statement of June 14, 1949.*

In his argument on that date, Mr. Finck, speaking for National, acknowledged that Article VII of the proposed Government decree merely cancelled the license agreements, restraining defendants from further enforcement of them. He expressly acknowledged that the proposed decrees of both the Government and USG, unlike the decree entered in *United States* v. *Line Material Co.*, did not contain any injunction against suits for past infringement or breach of royalty agreements (R. 355).

When National, two days later, submitted its proposed decree, it merely modified Article VII of the proposed Government decree to include a declaration therein that the license agreements be deemed "null and void" (R. 432). No indication was given by National when making that proposal that the words "null and void" were to serve any purpose other than justification for the cancellation of and restraint of future performance by defendants under the license agreements. Indeed, the proposed decree of National continued to carry the provision of the earlier Government draft, merely cancelling the licenses. By the terms of its proposal National strongly suggested that it was only future performance under the license agreements that was meant to be barred (R. 432).**

* The Government had made it quite clear in argument on June 13, 1949, that it only sought cancellation of the licenses. Thus, Mr. Knuff had informed the court below: "I do not think the court is going to have too much trouble in disposing of this section of the decree, because, if I understand USG's position correctly, they do not object to the cancellation of the existing licenses." (R. 278)

** As corporate appellees concede, by July 25, 1949, USG had begun to suspect that the purpose of corporate appellees in urging

It is submitted that all proponents in the court below of the "illegal, null and void" language that finally appears in the 1951 final judgment, either expressly or by strong implication informed both the district court and USG that inclusion of such language was not intended as a bar to collection by USG of compensation from persons who had used its patents in the *pendente lite* period.*

B. It is clear from Conclusions 7 and 13 of the court below (R. 1156-1157)** that if USG, in 1953, had not

---

the court below to include the "illegal, null and void" language of Article IV was "to obtain some advantage with respect to the use of the patents." (Natl. Br. 50; Cert. Br. 48) Indeed, USG went so far as to call its suspicions in this respect to the attention of the district court (R. 437). However, corporate appellees never affirmed or denied the correctness of the USG suspicions. They merely continued to stand upon the reasons that they had previously given for including Article IV (USG Br. 67-68), which, of course, did not include avoidance of payment for prior use of USG patents. They can now hardly make a virtue of their silence and misrepresentation.

* Corporate appellees are, of course, wholly unwarranted in charging that prosecution of the USG compensation suits in Iowa "flouted boldly" the 1951 final decree (Natl. Br. 28; see also Cert. Br. 57). Not only was there real uncertainty as to the meaning of the "illegal, null and void" language of Article IV, but the court below has held that Counts III, IV and V were not expressly or impliedly covered by the 1951 final decree. Moreover, the corporate appellees concede (Natl. Br. 44) that "the lack of a specific injunction in the decree against enforcement of the license agreements" bars a conclusion that USG, in bringing its compensation suits, acted contumaciously.

** "7. • • •

"Article IV of the Final Decree did not expressly nor impliedly cover the character of suits now brought by USG for infringement or for *indebitatus assumpsit* or for *quantum meruit*. It neither allowed nor forbade such.

"• • •

"13. The course of conduct of USG, as clearly shown by the proceedings of record in the Anti-trust case and in the suits by USG, must be construed as meaning that USG has continued after May 15, 1951 to misuse its patents by seeking recovery, directly and indirectly, on the illegal license agreements up to this time. The attempt by USG to enforce the royalty provisions of the illegal patent license agreements is

pleaded its counts on the old license agreement: (1) the 1951 final decree would not have barred compensation suits based upon the other counts, (2) USG would not have been deemed to have misused its patents continuously from 1948 to 1953, and (3) the court would not have modified the 1951 final decree.

But we know what would have happened had USG, in 1953, in its compensation suits, merely pleaded infringement of its patents. The old license agreements would have been pleaded in defense.* The issue of the validity of those agreements would have been raised for decision. It would have been a question whether USG, in the face of those arguments, was entitled to relief for infringement.

However, one serious difference would have arisen should the matter have proceeded in that way. Suppose the 1953 compensation court finally had decided that the old license agreements were only cancelled by the 1951 final decree and that the licenses therefore barred a suit that only claimed for pre-cancellation infringement. USG would then have been forever out of court. It could not turn and sue on the license agreements, for the Iowa five-year statute of limitations on contract claims had, by March 1953, started to bar recovery for the 1948 period. Had compensation suits been started May 16, 1951, there was even then not time enough to try and sue in two steps. Moreover, under long established doctrines of *res judicata*, such a second suit by USG would doubtless have been barred as a matter of law. It would have been barred on the ground that USG had the opportunity and should have asserted its contract theory when making its claim

---

clear misuse of its patents; such misuse yet continues; and to allow prosecution of these suits, would weaken the effectiveness of the Final Decree."

* This defense was actually pleaded by National to the USG infringement count in the Iowa compensation suit (R. 723-724).

for compensation for use of its patents. Cf. *Baltimore S. S. Co.* v. *Phillips*, 274 U. S. 316.

It is to avoid just such hazards as this to good faith prosecution of a claim that the Federal Rules (Rule 8) permit a party to plead alternative and inconsistent counts and declare that the insufficiency of one or more of such counts does not render the entire pleading insufficient.

It is, presumably, recognition of this fact that has caused the Government never to contend that the bringing of suits on the old license agreements is, *per se*, a misuse of patents. The government did not so allege in its petition (R. 739). It does not now so allege. Indeed, if it now believed such to be the case, it could not remain indifferent to whether USG recovers on its remaining counts. This is necessarily so, because the Government, in its brief on this appeal (U. S. Br. 13), reaffirms its support of the rule in the *Morton Salt* case. If the Government believed that USG had misused its patents in 1953 by bringing its compensation suits, it would be here invoking application of the *Morton Salt* rule.

C. Corporate appellees suggest (Natl. Br. 79-82; Cert. Br. 76-80) that USG can find no comfort in the provisions of Section 271(d), Title 35, the relevant language of which reads:

> "No patent owner otherwise entitled to relief for infringement * * * shall be denied relief or deemed guilty of misuse by reason of his having * * * sought to enforce his patent rights against infringement * * *"

They contend, as did the court below (R. 1336-37), that prosecution by USG of its counts on the old license agreements was a misuse of patents, and, by reason thereof, USG was not "otherwise entitled to relief for infringement."

But, as we have already noted, when USG pressed its

counts for infringement in its compensation suits the license agreements were pleaded as a bar thereto. If the need for judicial determination of whether a plaintiff is "otherwise entitled to relief for infringement" can be injected into an action by defendants, pleading putatively voided license agreements as a bar to infringement, it certainly cannot be a misuse of patents for the plaintiff to have raised that issue by pleading the same agreements, as one of several alternative grounds, in a suit claiming compensation for use of patents.

II.

RIGHT TO BE HEARD.

Corporate appellees contend (Natl. Br. 63-75; Cert. Br. 51-67) that it was not error to hold that issues of patent misuse in the 1948-1951 period, raised in their petitions (R. 611-12; 663-64) and denied by USG in its answers thereto (R. 788-89; 797-98), might be adjudicated without the taking of any evidence.

The petitions of corporate appellees assert a wide variety of alleged patent misuse by USG in the 1948-1951 period. They charge, among other things, that during that period USG did not abandon any of the illegal patent practices established at the trial of the Government suit; that USG continued its licensing, as well as pricing and distribution policies, in accordance with the terms of the unlawful licenses; that USG collected royalties thereunder, not only on patented but unpatented board as well; that it sold and distributed its product under the same terms and conditions as prescribed in the unlawful licenses; that USG refrained from selling gypsum products to jobbers; that it refused to grant licenses under its misused patents to all applicants on lawful terms; and that it continued to assert, until at least May 29, 1950, that its unlawful licenses were legal in every respect (R. 611-12).

The answers of USG to the various petitions expressly deny each of those allegations that it misused its patents in the 1948-51 period and, they expressly deny, among other things,

> "* * * that during the period from February 1, 1948, to May 15, 1951, it continued any illegal patent practice as alleged in the Government's complaint or that during such time it conducted its patent licensing, sales, price or distribution policies in accordance with the terms of any unlawful licenses." (R. 789.)

Those pleadings by the corporate appellees and by USG, plus the record in the old Government antitrust suit, constitute the complete record upon which the court below entered its judgment modifying the 1951 final decree. The last word that the district court had, therefore, on the economic and technological state of the gypsum industry related to events that had occurred no later than 1941.

The corporate appellees now apparently sense that those deficiencies in the record undercut the basis of the judgment below. They ask this Court, therefore, to resort to a legal fiction to provide a continuing patent misuse by USG. Thus, they call the attention of the Court to earlier rulings by it to the effect that an antitrust violation once proved is presumed to continue until clear proof of purge is shown (Natl. Br. 71).*

---

* Corporate appellees contend (Natl. Br. 65-67; Cert. Br. 51, 56) that there are on the record five incontrovertible facts, found by this Court in 1950, showing sweeping misuse by USG of its patents at the time of the filing, in 1940, of the complaint in the old Government antitrust suit. Reference thereafter by National (Natl. Br. 71) to cases extending the presumption of such violations, until clear proof of purge is shown, is made only for the purpose of extending those so-called incontrovertible violations through the 1948-1951 period.

Appellant, of course, rejects the contention of corporate appellees that this Court made any new findings of fact in 1950. This Court, in its 1950 decision (340 U. S. 76), certainly did not

Even assuming the accuracy and application to this case of such a legal theory, and even assuming its necessary corollary, that the burden of going forward and rebutting the presumption, by showing purge, rests upon USG, the fact remains that USG has not been accorded an opportunity to offer any evidence against the presumption.

USG asks that this Court require at least *prima facie* proof of those patent misuses alleged by corporate appellees to have been practiced by USG from 1948-1951. USG asks that this Court direct that it then be given a chance to prove its denials of those alleged misuses. USG wants an opportunity such as was given defendants in *United States* v. *Oregon State Medical Society,* 343 U. S. 326, 334, to which National has made approving allusion (Natl. Br. 71), to show that seven years of abandonment of a proven antitrust violation is a sufficiently long period of grace in which to effect a purge of such violation.

It was in connection with this claim for an opportunity to be heard that USG, in a brief submitted to the court below (R. 812-14), called the attention of that court to certain facts, already of record before it, which USG contended not only prevented any summary ruling of unpurged misuse but transferred to corporate appellees the burden of proving, *prima facie,* the patent misuses they alleged against USG. Thus, USG, for illustrative purposes only, directed the consideration of the district court to these facts of record: that price fixing had been abandoned in the industry in 1941 (1947 R. 4143); that the 1948 opinion of this Court (333 U. S. 364) established, *prima facie,* the

find the so-called incontrovertible facts. This Court made clear in 1950, when granting the relief then sought by the Government, that it accepted itself bound, as to the facts, within "the narrow limits of the proven violation" found below (340 U. S. 76, 90). Certain it is, that the antitrust violations proven in the district court in the old Government antitrust suit did not include any of the five so-called incontrovertible facts that are now enumerated by corporate appellees. (See 340 U. S. 76, 88; 1949 Proof by Proffer, at R. 36-54; 1949 decree, at R. 471-77.)

illegality of pre-1941 price-fixing practices in the gypsum board industry; that in June 1948, the court below held the pricing provisions of the license agreements illegal *per se;* that USG offered legally unobjectionable licenses in 1949 (R. 396-8, 447, 481, 562, 567-70); that the district court had issued an injunction against industry price fixing practices in November 1949 (R. 475); and that in May 1950, this Court had issued a temporary injunction against all defendants, enjoining any price fixing by them (339 U. S. 960). USG urged below that the presumption to be applied was one of obedience to those many pronouncements of the courts, and that this was sufficient as a matter of law to rebut the alleged presumption of continuance of the conspiracy down to the date of the 1951 final decree.*

---

* Corporate appellees seriously misapprehend the character and purpose of this USG reference to facts of record. That reference was not an "offer of proof" as is suggested by appellees in their statement of Question 3 in the "Questions Presented" (Natl. Br. 4). It was merely a reference to facts already established in the prior Government antitrust suit. USG submitted that those facts placed upon the corporate appellees the burden of going forward to prove the patent misuses in the 1948-1951 period that were alleged against USG in the petitions of the corporate appellees. Such reference to facts of record is not a proffer of proof.

Indeed, it is strange now to hear National contend that USG made a proffer of proof below. In their "Motion to Affirm" filed in this Court, they urged that USG had made no proffer of facts and, indeed, that USG had waived its right so to do (Natl. Mo. to Aff. 26; see, also, Cert. Mo. to Aff. 26 and Cert. Br. 57).

Throughout this proceeding, corporate appellees have overlooked the fact that the procedure below was intended to present, in the first instance, legal points, as on a motion for summary judgment, as to whether or not the district court had and should take jurisdiction, and whether or not questions raised by the petitions might be disposed of as a matter of law (R. 676-78, 691-92, 812-14, 1252-53). In a brief of National filed below (R. 775-6), it was urged that if the district court should not hold for National as a matter of law, it "should then proceed to hear evidence on the question of whether USG took effective steps to accomplish a purge of its misused patents prior to May 15, 1951."

To date, there has not been a scintilla of evidence put on the record in support of allegations by corporate appellees that USG

III.

JURISDICTION OF COURT BELOW.

In its main brief, USG attacks the jurisdiction of the court below on two grounds. USG contends that the district court did not have power (1) to extend the restraints of the 1951 final decree to achieve purposes beyond those of that decree, and (2) to inject itself, and thereafter use its injunctive powers, to restrain decision of cases then pending in other federal courts of competent jurisdiction.

The first of those contentions is exhaustively discussed in our main brief, and more need not be said upon it here (Br. pp. 26-36, 62-74).

The second point: Whether the district court had power to preempt decision of issues already pending in other district courts of competent jurisdiction is one upon which it is appropriate for USG to speak further.*

This question raises problems in judicial administration closely akin to those involved when courts treat the problem of primary jurisdiction in administrative agencies.

The problem of primary jurisdiction in administrative agencies was aptly treated in a decision by Mr. Justice White, in *Texas & Pacific R. Co.* v. *Abilene Cotton Oil Co.*, 204 U. S. 426. That case held that where Congress had established an expert agency for the determination of questions of fact and mixed questions of fact and law, such agency was to have a primary jurisdiction, even where statutes granted district courts power to treat such

misused its patents in the 1948-1951 period. There has not been an opportunity for USG to introduce countervailing evidence or to proffer countervailing proof, even to a presumed misuse. Neither has there been any intent or act by USG to waive its right to introduce such evidence.

* This point also relates to one of those two matters on this appeal upon which the Government has seen fit to comment (U. S. Br. 9-12).

matters concurrently. Only where pure questions of law are raised may a district court presume concurrently to exercise its powers with an administrative agency.

The petition of the Government and Claim I of the National petition raise only pure questions of law. Thus, in its petition the Government contends that Article IV of the 1951 final decree barred recovery by USG on any of the license agreements declared by Article IV to be illegal, null and void (R. 739-41). Claim I of the National petition goes further, alleging that the 1951 final decree bars recovery by USG on any theory of compensation for the use of its patents *pendente lite* (R. 610). However, Claim II of the National petition raises issues for decision of a different character (R. 611-612). By alleging multiple acts of patent misuse by USG in the 1948-1951 period, it raises a great variety of factual questions and questions of mixed fact and law.* Recognition that complicated questions of fact remain for decision if the judgment below is reversed requires, we submit, that choice of the forum for decision should go, just as it did in *Abilene*, to that forum which can more effectively handle resolution of the problems.

Such an analysis, we submit, leaves no doubt but that the district courts in which the compensation suits were originally brought, are the more appropriate fora. They are more appropriate for the following reasons:

1. Congress, in enacting Sections 28 and 29, Title 15, intended that economic issues of large public importance, raised in civil antitrust suits brought by the Government, should obtain the most prompt and careful consideration. This is evidenced by the fact that in all such cases Con-

* That issues of fact would be raised by the USG denial of the allegations of Claim II of the National petition has been acknowledged before the court below by counsel for National (R. 677, 775-76).

gress abandoned an intermediate step of appeal through the courts of appeals and imposed upon this Court the duty of reviewing directly judgments of district courts in such cases. The Congress went further. It declared that if the Attorney General certified that a "case is of general public importance", it should be tried by a court of three judges, one of whom must be a circuit judge.

It can hardly be contended that resolution of the ultimate question in this patent compensation litigation is a matter of large public moment. If this case is remanded to the court below for adjudication of the allegations contained in Claim II of the National petition, the United States will at most be a nominal party in the long proceeding that would follow. The United States has already indicated that resolution of the factual issues in this case, whether or not they result in an award of compensation to USG, is a matter upon which the Government is neutral (R. 740, 816, 878). To require that such factual issues as will arise in decision of this case on remand be resolved in a special court created for the decision only of matters of national public concern disregards the Congressional purpose in creating such courts.

2. Trial in the compensation court provides a more efficient fact finding medium than is provided by a three-judge court. Experience shows that trial by three judges is a laborious, time-consuming process, requiring multiple rulings by each judge on every question of evidence and admissibility. Unless the ultimate judgment of the court is one which involves an important public question, this process is wasteful of our limited judicial resources. Moreover, as this case indicates, the retention of jurisdiction in a three-judge court does not guarantee any greater foreknowledge, familiarity with the prior litigation, in that court than would be provided in the compensation court. As has been noted (USG Br. 17, fn.; U. S. Br. 4 fn. 2),

none of the judges on the court that entered the 1951 final decree sat on the court that entered the 1954 modifying decree.

3. Whether the USG compensation claims are litigated on remand in the court below or in the compensation court, ultimate recourse on appeal is to this Court. In either case, important questions of federal law can find their ultimate answers in a decision here. However, permitting trial in the compensation court provides a screening of both the factual and legal determinations of the trial court by the intermediate appellate review provided by our courts of appeal. Thus, at least four judges would pass upon judgments originating in the compensation court, while at most, as here, only three judges would pass upon the case. Moreover, had the Government, in 1940, not invoked the provisions of Section 28, Title 15, this case, on remand, would be returned for decision to but a single judge, appeal from judgment by his court being, nonetheless, direct to this Court.

IV.

MISCELLANEOUS MATTERS.

There are certain assertions made in the main briefs of National and Certain-teed which require brief refutation, which refutation cannot be worked into the frame of our prior argument that misuse, as a matter of law, was not established and that USG was deprived of its right to litigate the charge of misuse and purge. Refutation of such assertions follows:

A. Corporate appellees assert (Natl. Br. 10, 74; Cert. Br. 59) that USG never made a commercial tender of a new and innocent license agreement to its licensees prior to May 15, 1951.

The fact is that before the court below on June 14, 1949,

counsel for USG referred to forms of licenses theretofore presented to the licensees, and said:

> "In other words, the defendant United States Gypsum Company is offering to license under any one of the unexpired patents or any two or more that the individual licensee shall desire.
>
> • • • • •
>
> "Under those agreements and under that proposal, as I say, each licensee is at liberty to take a license under one or more, just as it shall elect." (R. 396-97)

Those proffered licenses were later approved as to form by the court below and thereafter were approved in substantially that same form by this Court (USG Br. 54-55). Since those licenses were proffered independent of judicial action (R. 396-97, 446), it cannot be contended, as corporate appellees attempt, that stay of the 1949 decree pending the USG appeal to this Court, in any way amounted to stay of the proffer.

Moreover, final determination of when and how USG may have made commercial proffers of legally acceptable licenses is like all the other questions of misuse and purge, a matter as to which USG deserves an opportunity to show additional pertinent facts not of record in the old Government antitrust suit.

B. Conclusions 7 and 13 of the court below (R. 1156-57) clearly show that had USG not pleaded its Counts I and II on the old license agreements: (1) the 1951 final decree would not have barred compensation suits based upon the other counts; (2) USG would not have been deemed to have misused its patents continuously from 1948 to 1953; and (3) the court below would not have modified the 1951 final decree. Nonetheless, appellees contend that the decision below is supported by multiple other bases than the conclusion that it was a misuse of patents for USG to have pleaded counts on the old license agreements.

In alleged support of their contention, appellees note that the court below barred prosecution of Count III (*quantum meruit*) of the USG compensation suits because it was "but a left-handed, indirect method for recovering the royalties provided in the illegal license agreements;" and that prosecution of the infringement counts was barred "both because of the practical and legal situation in this case, and, also, the teaching in the *Hartford-Empire* case" (Natl. Br. 20-21; Cert. Br. 22-23; U. S. Br. 4-5).

We submit that the intent of that quoted language of the court below is only to buttress these two conclusions of that court: (1) that it was a misuse of patents for USG to sue on counts pleading the old license agreements; and (2) that because of such misuse, it was unnecessary, as a matter of law, that USG be given an opportunity to present evidence of its purge of alleged patent misuse in the 1948-1951 period.

Thus, when in Conclusion 14 (R. 1157-58) the court below held that Count III should be barred as being a "left-handed, indirect method for recovering the royalties provided in the illegal license agreements," it must have been acting on the belief that the misuse of patents occasioned by the pleading of Counts I and II in the compensation suits required that result. This inference is logically necessary, because in Conclusion 7, the court held that "the Final Decree did not expressly nor impliedly cover the character of suits now brought by USG for infringement or for *indebitatus assumpsit* or for *quantum meruit*" (R. 1156). Clearly, if the 1951 final decree did not bar suit on Count III, such a suit could only be enjoined because of a subsequent illegal act by USG that could justify new and further exercise of equity restraints. *Hughes* v. *United States*, 342 U. S. 353. The only post-1951 act by USG found illegal by the court below (R. 1157) or alleged by corporate appellees to be illegal (R. 699) was its prosecution in 1953 of its compensation suit.

When the court below acted to bar the infringement counts of USG, it said that it was doing so "because of the practical and legal situation in this case, and, also, the teaching in the *Hartford-Empire* case" (R. 1158, Conc. 16). When the court refers to the "legal" situation, it can only mean, in the light of Conclusion 13 (R. 1157), the legal situation posed by its decision that the USG suits on the old license agreements were acts of patent misuse, requiring that recovery on an infringement theory be barred. As noted above, that was the only illegal action by USG that the court below found. Also, that misuse conclusion could have been the only "practical" matter that the court below had in mind, for, as we already know, the record before it was devoid of any economic or technological data relating to the gypsum industry in the period after 1941. Finally, since the court below seriously misconstrued the "teaching" of *Hartford-Empire* (See USG Br. 38-40 and Point D, *infra*) its judgment may not be sustained, by reference to its misplaced reliance upon that case.

C. National and Certain-teed in their main briefs attempt to justify bar, by the court below, of the *quantum meruit* counts of the USG compensation suits, by asserting that the *quantum meruit* counts in those suits are

> "a pure invention of counsel. A *quantum meruit* claim does not lie for use of a patent." (Natl. Br. 51-52; Cert. 73.)

National further states that its counsel have not been able to find any cases holding that there is a quasi-contractual action for patent infringement (Natl. Br. 52, fn.). Despite their research, the law is clear that while only a count for infringement will lie where there has been an unauthorized use of the patent invention, a *quantum meruit* count will lie where the use has been authorized by the patentee. *E. W. Bliss Company* v. *United States*, 253 U. S. 187, 190; *United States* v. *Palmer*, 128 U. S. 262; *Matarese* v. *Moore-*

McCormack Lines, 158 F. 2d 631 (2d Cir. 1946); *Henry* v. *A. B. Dick Company*, 224 U. S. 1; 69 C. J. S. 890; A. Corbin, "Waiver of Tort and Suit in Assumpsit", 19 Yale L. J. 221 (1910). Every case cited by appellees involved an unauthorized use of patents.

In the *Bliss* case, this Court stated that but for the patentee's lack of consent to the use of the patented inventions, "a contract for royalty on the basis of *quantum meruit* should be implied" (253 U. S. 187 at 190). And in the *Palmer* case, the Court said:

> "This assumption of the appellant is erroneous. No tort was committed or claimed to have been committed. The government used the claimant's improvements with his consent; and, certainly, with the expectation on his part of receiving a reasonable compensation for the license. This is not a claim for an infringement, but a claim of compensation for an authorized use,—two things totally distinct in the law, as distinct as trespass on lands is from use and occupation under a lease." (128 U. S. 262 at 269.)

It follows that the *quantum meruit* counts pleaded in the USG compensation suits will lie to recover compensation for such use of USG patents by appellees as was authorized.

Counsel for National are likewise mistaken when they seek to apply to *quantum meruit* counts (Counts III and IV) the rule that a transaction wholly illegal will not support recovery on *quantum meruit* (Natl. Br. 52, fn.). This rule accurately stated is only that if a *quantum meruit* count declares on an implied agreement which, had it been in writing, would have been illegal, then no *quantum meruit* recovery may be had. Moreover, any identity between the agreements alleged in Count III of the USG compensation suits and the old license agreements is completely negated by those allegations of Count III which assert a rescission of the old agreements and a new implied arrangement for

the authorized use of the patents, free of all restraints contained in the old written agreements.

D. National accuses USG of misinterpreting the *Hartford-Empire* case by intermixing its alleged prohibition against the collection of compensation for past infringement with a so-called special problem related to the disposition of the earmarked moneys paid by Hartford's licensees to a receiver of Hartford (Natl. Br. 56). But the moneys paid to the receiver were for *pendente lite* use of Hartford's patents. To call it a special problem gets nowhere. If the court had so desired, it could easily have given the licensees a "free ride" by ordering the receiver to return the moneys which each licensee had paid into the fund. It did not choose so to confiscate the patentees' property to the special benefit of its co-conspirators, but rather approved Hartford's receipt of compensation for use of its patents *pendente lite*. Furthermore, the *Hartford-Empire* final decree, in enjoining the corporate defendants from seeking recovery for infringement for prior use of the patents, expressly excepted from that injunctive provision any such attempted recovery "against any other corporate defendant" (Par. 16(c) of *Hartford-Empire* final decree, October 31, 1945).

Corporate appellees' construction of *Hartford-Empire* turns on a statement by Mr. Justice Roberts on the first appeal in *Hartford-Empire* (Natl. Br. 55-56). That statement reads:

> "* * * if at the time of entry of the decree there are any alleged infringers who are willing to take such licenses they should be released, and the patent owner deprived of all damages and profits which it might have claimed for past infringement". (323 U. S. 386, at 419.)

However, the entire decision in *Hartford-Empire* cannot be pinned on that one sentence. To do so ignores the sub-

sequent history of the case in this Court and ignores also what this Court said elsewhere in its first opinion, from which the above quotation comes.

The true meaning of *Hartford-Empire*, as urged by USG, is that absent a post-decree antitrust violation, a patent licensor, although found to have previously violated the antitrust laws, is not, *per se*, barred from recovering compensation for use of its patents in the *pendente lite* period. This is borne out by the record in the *Hartford-Empire* case.

First, it is undeniable that Hartford received more than $7,000,000 from its licensees for use of its patents, machines and services prior to entry of the final decree. Second, the first opinion in *Hartford-Empire* of this Court, also stated:

> "The royalties paid to the receiver by Hartford's lessees may, unless the district court finds that Hartford has, since the entry of the receivership decree, violated the antitrust laws, or acted contrary to the terms of the final decree as modified by this opinion, be paid over to Hartford." (323 U. S. 386, at 411.)

Thirdly, in the second *Hartford-Empire* opinion of this Court, considering a petition by the Government for clarification or reconsideration of the first opinion, the Court further said:

> "Unless Hartford, since the entry of the decree by the District Court, has been guilty of some added violation of the antitrust laws, licensees must elect (a) to remain licensees on such reasonable rental and royalty basis for the future as the District Court may fix, or (b) repudiate the leases and litigate their rights as against Hartford to retain any portion of the rents and royalties paid." (324 U. S. 570, at 572.)

So far as pertinent here then, corporate appellees are in the position of those licensees in *Hartford-Empire*, who

elected to remain licensees on reasonable terms fixed by the court for the future, and, as to them, it is clear that the net result of *Hartford-Empire* is that the patent licensor was held entitled to receive compensation for use of its patents prior to the final decree, in the *pendente lite* period.

If Hartford was permitted to receive over $7,000,000 under its outstanding licenses which had been invalidated by the court, the *Hartford-Empire* case certainly forbids enjoining USG, on the record in this case, from seeking reasonable compensation for the actual use of its patents by co-conspirators during a comparable *pendente lite* period.

E. The claim by National that there was patent misuse from March 1948 to 1951 by reason of the receipt by USG of the royalties voluntarily paid to it by National until March 1948, is, while illogical on its face, also wholly untenable (Natl. Br. 57-58, fn. 29; 70). Patented board was the only commercially acceptable board (R. 37, 52), and, at the June 14, 1949 hearing, the attorney for National stated that National did not make other than patented board (R. 356). Whatever royalties National paid, then, under the old license agreement, were for actual use of USG patents. Equally unsupportable is the suggestion that the royalties were paid for price control by USG (Cert. Br. 71). From 1941 to 1948, when payments were stopped, there was no price control under the licenses (R. 1150, FF 22A). Moreover, National and Certain-teed accepted licenses under the 1951 final decree on the patents in suit at the same royalty rate established by the old license agreements. They bought in 1951, for the same money, that which they had always bought for that money, the use of USG patents.

V.

POSITION OF GOVERNMENT.

In its short brief, the Government recognizes that the USG appeal primarily attacks application by the district court of the so-called patent misuse doctrine in holding (1) that prosecution by USG of its compensation suits, pleading counts on the voided license agreements, is, *per se*, a misuse of patents, and (2) that the alleged patent misuses by USG in the 1948-1951 period, could be determined, as a matter of law, without the taking of evidence (U. S. Br. 8).

Although recognizing that these are the principal thrusts of the USG appeal, the Government nonetheless has seen fit to ask this Court to discuss "in the context of the general factual circumstances which the district court deemed significant or determinative" standards that would be appropriate "to make the patent misuse doctrine an effective deterrent against violation of the antitrust laws" (U. S. Br. 8, 17).

We submit, that such a request by the Government is patently premature, obviously improper. If, as USG contends, and as the Government does not deny, it was error for the district court to hold that the pleading of Counts I and II in its compensation suits was, *per se*, a misuse of patents, and further, that it was error to hold, as a matter of law, and without the taking of evidence, that USG had misused its patents, as alleged by corporate appellees, in the 1948-1951 period, it follows that the only appropriate action for this Court is to reverse, ordering trial of the alleged issues of misuse. Only at such a trial, in an appropriate court below, will that cluster of facts be developed against which in this controversy it is appropriate to discuss "standards to make the patent misuse doctrine an effective deterrent against violation of the antitrust laws."

This Court has always scrupulously recognized that it is for courts below to make initial determination of the facts and of the law appropriate to those facts. Here the facts relating to misuse and purge in the 1948-1951 period have yet to be found, and without such facts, standards may not be appropriately discussed. It is not for this Court to give advisory opinions, even on the invitation of the Solicitor General. This is certainly true when the opinion invited relates to a most difficult question of economic regulation.

CONCLUSION.

For the foregoing reasons, the judgment of the district court should be reversed, with directions to enter a judgment granting appropriate relief to appellant.

Respectfully submitted,

BRUCE BROMLEY,
CRANSTON SPRAY,
ROBERT C. KECK,
JOHN D. CALHOUN,
HUGH LYNCH, JR.,
Attorneys for Appellant, United States Gypsum Company.

CRAVATH, SWAINE & MOORE,
15 Broad Street,
New York 5, New York,

MACLEISH, SPRAY, PRICE & UNDERWOOD,
134 South LaSalle Street,
Chicago 3, Illinois,

MACLEAY, LYNCH & MACDONALD,
1625 K. Street, N. W.,
Washington 6, D. C.,
Of Counsel.

MAR 2 1 19
JOHN T. FEY, C

IN THE

Supreme Court of the United States

OCTOBER TERM, 1956

No. 11

UNITED STATES GYPSUM COMPANY,
Appellant,

vs.

NATIONAL GYPSUM COMPANY, *et al.*,
Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA.

PETITION FOR REHEARING OF APPELLEE NATIONAL GYPSUM COMPANY.

SAMUEL I. ROSENMAN,
ELMER E. FINCK,
SEYMOUR D. LEWIS,
MALCOLM A. HOFFMANN,
SEYMOUR KRIEGER,
GILBERT S. EDELSON,
Attorneys for National Gypsum Company.

Of Counsel:

FINCK & HUBER,
804 Liberty Bank Building,
Buffalo 2, New York.

ROSENMAN GOLDMARK COLIN & KAYE,
575 Madison Avenue,
New York 22, New York.

SEYMOUR KRIEGER,
777 Fourteenth St., N. W.,
Washington 5, D. C.

INDEX.

	PAGE
SUMMARY	2
ARGUMENT:	
I. The plain errors of fact in the Court's opinion	5
A. The violation was more than price-fixing—it included monopolization and additional restraints	5
B. The undisputed facts underlying the adjudications as well as the license agreements themselves proved more than agreement to fix prices	7
C. The Court misinterpreted its 1950 opinion	11
II. The Court's errors were made *sua sponte*	14
III. The Court's factual errors formed the basis of its two controlling rulings	15
CONCLUSION	20
CERTIFICATE	21

Table of Cases

	PAGE
B. B. Chemical Co. v. *Ellis*, 314 U. S. 495 (1942)	17
Hartford-Empire Co. v. *United States*, 323 U. S. 386 (1945), 324 U. S. 570 (1945)	4, 13, 15, 16
Morton Salt Co. v. *G. S. Suppiger Co.*, 314 U. S. 488 (1942)	18
United States v. *National Lead Co.*, 332 U. S. 319 (1947)	4, 13, 16, 19
United States v. *United States Gypsum Co.*, 333 U. S. 364 (1948)	8, 9, 10
United States v. *United States Gypsum Co.*, 339 U. S. 960 (1950)	2
United States v. *United States Gypsum Co.*, 340 U. S. 76 (1950)	7, 10
United States Gypsum Co. v. *United States*, 339 U. S. 959 (1950)	6

IN THE

Supreme Court of the United States

OCTOBER TERM, 1956

No. 11.

UNITED STATES GYPSUM COMPANY,

Appellant,

vs.

NATIONAL GYPSUM COMPANY, *et al.*,

Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA.

PETITION FOR REHEARING OF APPELLEE NATIONAL GYPSUM COMPANY.

Appellee, National Gypsum Company (hereinafter "National") petitions the Court for rehearing in the above matter on the grounds that:

(1) the Court's opinion contains two plain errors of fact;

(2) these two errors were committed by the Court *sua sponte* so that National was deprived of the opportunity for briefing and argument, and

(3) these erroneous facts form the basis of two rulings by this Court which have resulted in reversal of the decree below.

Summary.

1. The first erroneous statement of fact by the Court is that the only violation found by the original District Court, on which it granted summary judgment in 1949, was price-fixing.*

This statement is in error. It conflicts with the express holding by this Court in 1950 (339 U. S. 960), which affirmed the District Court's 1949 finding of monopolization as well as price-fixing as follows:

> "Article III of the decree of the District Court of November 7, 1949, reading as follows:
>
> 'The defendant companies have acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board and *have monopolized trade and commerce in the gypsum board industry* in violation of sections 1 and 2 of the Sherman Antitrust Act,' *is affirmed.*" (Emphasis supplied)

The Court's statement that the only violation was price-fixing is also erroneous because each of the defendant's patent license agreements *in toto,* not merely the price-fixing provisions thereof, was adjudged unlawful (1949 and 1951 Decrees, Art. IV; R. 475, 567).

The second erroneous statement of fact is that the only "undisputed issue of fact was that Gypsum** had given its

---

* This appears variously as follows in the Court's opinion: ". . . the only misuse ever *adjudicated* was that arising from the uniform price fixing provisions of the license agreements." (Slip Sheet Opinion p. 12); ". . . the District Court . . . granted summary judgment on the price-fixing violation. This left all of the other matters still at issue" (Op. 13); ". . . the only patent misuse that has ever been established in this long drawn-out litigation is concerted price fixing under the former patent licenses" . . . (Op. 14).

** The Court in its opinion referred to U. S. Gypsum Company as "Gypsum." It will be so referred to here.

competitors uniform patent licenses containing a price fixing clause" (Op. 12).

The record, to the contrary, as we shall specify hereinafter, shows many undisputed facts proving an aggregation of other industry-wide restraints and broad industry monopolization.

2. The Court made these errors *sua sponte*. Gypsum did not on this appeal challenge the propriety of the prior adjudications that it had violated Section 2 of the Sherman Act or that it had also engaged in restraints of trade other than price-fixing. National had no reason to anticipate from appellant Gypsum's brief the *ratio decidendi* of this Court's decision, and its brief and argument, therefore, were not addressed to it. By this petition National asks for its day in this Court on this question.

3. These errors are not minor mistakes. They go to the very heart of this Court's decision. They form the basis for the following two major rulings by this Court on this appeal which have resulted in the judgment of reversal:

The first ruling here made was that the Court below erred in holding that the violation continued unpurged through the 1948-1951 period. In arriving at this conclusion this Court stated:

> " . . . How, then, can we assume that this earlier violation, adjudicated for the first time in 1948, continued thereafter?
>
> *"The answer to this question depends on the nature and extent of that violation."* . . . (Op. 11) (Emphasis supplied)

It is therefore the holding of this Court that the "nature and extent" of the violation are controlling on the

issue of unpurged misuse. Appellee is entitled to a reargument on this issue of unpurged misuse on the correct, and not an erroneous, conception, of the nature and extent of the violation. For the nature and extent of the violation here was so pervasive throughout the industry that purge could not occur until the Final Decree (May 15, 1951) opened up the industry to adequate competition by reasonable royalty licensing to anyone in the industry.

The second ruling based on this erroneous conception as to the scope of the violation of law, and its factual premise, was that there was no warrant for the lower court's modification of its decree to enjoin pre-decree royalties. This Court stated that the findings as to the violation in the *Hartford-Empire* cases, 323 U. S. 386, 324 U. S. 570, "were much broader than anything found here", (Op. 17), and for that reason, among others, *Hartford* did not justify the lower court's modification. Appellee should be heard on the corrected premise that this case, like *Hartford*, involved both monopolization and an aggregation of restraints, of which price-fixing was only one.

If we are right that the violation here included monopolization and an aggregation of restraints, then, the District Court's holding should be affirmed. For in that event, there could have been no purge, as a matter of law, until the Final Decree of May 15, 1951; and, apart from purge, the discretion of the District Court, under the *National Lead* (332 U. S. 319) and *Hartford* cases, was properly exercised.

Each of these three points will be briefly developed in turn.

ARGUMENT.

I.

The plain errors of fact in the Court's opinion.

The basic error of the Court, we respectfully urge, is to treat this case as one limited to simple price-fixing. This Court misreads the record in saying that the only violation, and the only undisputed fact, was price-fixing.

The violation here found below and affirmed by this Court included monopolization as well as illegal price-fixing. And each of the license agreements, not merely the price-fixing provisions, was adjudged illegal. In addition, as hereinafter specifically shown, undisputed facts, deriving (1) from the face of the license agreements, and (2) from the undisputed bulletins issued thereunder, show an industry-wide aggregation of restraints, not merely price-fixing.

These undisputed facts show this Court is in error in its conclusion that the Government's charges of standardization of trade practices, elimination of jobbers, and restraints on unpatented articles are still in issue. Gypsum's proffer of proof on the Government's motion for summary judgment in 1949 did not even put these undisputed facts in issue; and this Court in its opinion in 1950 (340 U. S. 76), enlarging the District Court's decree, relied on these same undisputed facts as proven violations rather than as mere possible abuses to be thwarted by decree.

A. The violation was more than price-fixing—it included monopolization and additional industry-wide restraints.

After the original District Court granted summary judgment in 1949 for the Government, the question of the

scope of decree was there fully argued. The Government had submitted a proposed decree. In Article III thereof, the Government set forth findings of violations of both Section 1 and Section 2 of the Sherman Act (R.* 158-159). Gypsum, at that time, contended that only a violation of Section 1 had been shown.**

This contention was rejected by the District Court—it found that the defendants had violated both Sections 1 and 2. It so stated in Article III of the 1949 Decree (R. 475).

Gypsum appealed, and assigned as error this finding of monopolization (R. 506).

But this Court dismissed the appeal (339 U. S. 959). And on the same day it noted jurisdiction of the Govern-

---

* "R." refers to pages in the record on this appeal.

** Gypsum counsel argued to the original District Court:

> ". . . it would be quite possible . . . that any trial on the basis of which all of the Government's charges in the complaint were sustained by evidence in the case—of course it would be possible to find both a violation of Section 1, a combination and conspiracy to restrain; and, something different, that something different being the attempt to monopolize or conspiracy to monopolize under Section 2. *But, because of the disposition actually made of the case by this court, in other words the granting of a motion for summary judgment on the theory that the admitted facts with reference to the plurality of licenses justified the granting of the motion, it is our position that nothing more was determined which would authorize a finding of violation of Section 2 of the Sherman Act.*
>
> "By contrast, in our proposed Article 3 . . . we have attempted to define what we understand this court's decision to be as to the nature of the law violation. The defendant companies, by adhering to the minimum price provisions of the patent licenses in an entire industry, with knowledge of the adherence thereto of the others, acted in concert in restraint of trade and commerce among the several states in the Eastern Territory of the United States to fix, maintain and control the prices of gypsum board, in violation of Section 1 of the Sherman Anti-Trust Act." (R. 306, Emphasis supplied)

ment's appeal to enlarge the decree and explicitly affirmed the finding of monopolization in the language cited at p. 2, *supra*. This adjudication of monopolization remained intact in the 1951 Final Decree (R. 566-567).

Obviously, the District Court did not base its Section 2 monopoly adjudication on price-fixing alone.

This Court's view that the adjudication of illegality here was limited to the price-fixing provisions of the patent licenses conflicts also with Article IV of the 1949 and 1951 Decrees (R. 475, 567). That Article states:

> "Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void."

Gypsum had argued, to the contrary, that only the price-fixing provisions were illegal. Its proposed decree in the original District Court read:

> "1. The minimum price provisions of the Patent Licenses are hereby declared to be illegal.
>
> "2. Each of the Patent Licenses is hereby cancelled and terminated." (R. 192).

Thus the District Court in rejecting Gypsum's contention found illegal something more than the price provisions of the license agreements—it found the entire agreements illegal, and it also found illegal an aggregation of other restraints (hereinafter shown) upon which it founded its holding of monopolization.

B. The undisputed facts underlying the adjudications as well as the license agreements themselves proved more than an agreement to fix prices.

1. This Court in its enlargement opinion in 1950 (340 U. S. 76) clearly held that the intention of Gypsum to

restrain trade and to monopolize appeared right on the face of the agreements—that its intention was not restricted to price-fixing.

> "... the intention of United States Gypsum and its licensees to act in concert to attain the purpose of the conspiracy, restraint of trade and monopoly, *was apparent from the face of the license agreements.*" (340 U. S. at p. 83; Emphasis supplied)

Summarizing the restraints apparent from the face of the agreement, this Court in 1950 adverted to this statement from its earlier opinion at 333 U. S. 364, 389:

> "The licensor was to fix minimum prices binding both on itself and its licensees; the royalty was to be measured by a percentage of the value of all gypsum products, patented or unpatented; the license could not be transferred without the licensor's consent; the licensee opened its books of accounts to the licensor; the licensee was protected against competition with more favorable licenses and there was a cancellation clause for failure to live up to the arrangements."

Thus, it was not merely the "uniform price fixing provisions of the license agreements" (Op. 12) which were offensive, but many other restrictive provisions in the license agreements as well.

2. This Court has overlooked the undisputed fact in the record that under these license agreements hundreds of bulletins were issued by Gypsum which "are printed on nearly a thousand pages of the record" (333 U. S. 364, 382). Gypsum admitted in its answer in the original District Court that it enforced the terms and provisions of the bulletins (Para. 77, 1948 R. 290). "The trial court found that

'in the main' licensees complied with the bulletin conditions" (333 U. S. 364, 384).

Through provisions in these bulletins Gypsum controlled minute details of distribution. For example, it:

a. Forbade licensees to employ commission salesmen without the written permission of Gypsum.

b. Prohibited granting of long term credit.

c. Compelled licensees to adopt a uniform basing point system of pricing.

d. Specified board size and prescribed minimum quantities.

e. Enjoined sales on consignment.

f. Forbade licensees to deliver board directly to a building site. (See 333 U. S. 364, 382-383)

This Court in 1950 pointed out that not only did these regimenting practices exist but that Gypsum did not even deny them. It stated:

> "Defendants' offer of proof did not deny such effort to systematize sales" (340 U. S. 76, 91)

On the undisputed facts, therefore, the offense here was more than price-fixing—there was also broad regimentation as shown above.

By these bulletins, too, Gypsum brought about additional restraints—the elimination of jobbers, and restraints on unpatented products.

This Court now finds, erroneously, we submit, that the Government's charge as to elimination of jobbers is still at issue (Op. 12-13). This is wholly inconsistent with its two prior decisions—and with the record. There was not even any dispute at the trial that jobbers were in fact eliminated by reason of the discontinuance of the jobbers discount, brought about by Gypsum's bulletins (333 U. S. 364, 397-8). Gypsum's proffer of proof did not deny that

the effect of its bulletins was to eliminate jobbers (340 U. S. 76, 87). It stated only that there was no intention, agreement or understanding to eliminate jobbers (Proffers 56, 57, R. 51). This Court in 1950 held that such proof would be immaterial (340 U. S. 76, 87). Jobbers could not enter the field by buying gypsum board from Gypsum's licensees without the written consent of Gypsum. This restrictive provision was embodied in the license agreements (e.g. Gypsum-National agreement, 1948 R. 4365-4366). Gypsum's power to exclude all jobbers therefore continued so long as the license agreements were effective, i.e., at least until March of 1948.

Finally, this Court erroneously finds that the Government's charge as to restraints in unpatented gypsum products is still at issue (Op. 12-13).

On the Government's appeal in 1950 to enlarge the original 1949 decree, it asked that the decree be extended to include *all* gypsum products instead of *patented* gypsum board alone. This Court in 1950 did so. It enlarged the decree on the basis of undisputed facts (which the proffer of proof did not contradict) showing restraints in unpatented as well as patented gypsum products:

> "... The license agreements, as indicated above, required royalties on unpatented open edge gypsum board. Board Survey, the organization created to enforce the license agreements, found possibilities of price evasion to exist by a licensee's cutting prevailing prices on other commodities, sold in conjunction with patented gypsum board. Bulletins, issued to standardize sale practices, criticized rebates as violative to the license agreements. 333 U. S. 364, 386. Defendants' offer of proof did not deny such effort to systematize sales. Their explanation was that the efforts were to enforce legitimate license agreements and were not calculated steps in conspiracy or monopoly. We think the Government's

request that the decree's injunctions reach gypsum products, as defined in its proposed decree, is reasonable and should be allowed." (340 U. S. 76, pp. 90, 91)

To summarize—this Court in 1950 enlarged the Government's decree of 1949 because the undisputed acts of the defendants under the license agreements, not denied by the proffer of proof, with respect to (1) standardization of trade practices, (2) jobbers and (3) unpatented products, showed restraints as to these matters.*

C. The Court misinterpreted its 1950 opinion.

The Court, quoting a certain portion from its enlargement opinion of 1950** concludes therefrom that the District

---

* It is true, as the opinion herein states, that in the instance where this Court in 1950 enlarged one of its injunctive provisions to cover the western part of the United States, there was no evidence of unlawful conduct in that territory (Op. 14). This was the *only* enlargement not based on undisputed facts. All the others—as above set forth—were based on undisputed facts.

** The quotation from the enlargement opinion reads (Op. 13-14):

"We agree with a statement made by counsel for the Government in argument below that as a 'matter of formulating the decree' many facts offered to be proven would have effect upon the conclusion of a court as to the decree's terms. *However, we read the preliminary statement of the District Court . . . as an adjudication of violation of the Sherman Act by the action in concert of the defendants through the fixed-price licenses, accepting as true the underlying facts in defendants' proof by proffer.* The trial judges understood the summary judgment to be, as Judge Stephens said 'limited to that one undisputed question.' Judge Garrett and Judge Jackson agreed. That conclusion entitled the Government only to relief based on that finding and the proffered facts. On that basis we dismissed United States Gypsum's appeal from that decree, and on that basis we examine the Government's objection to the decree.

• • • • • •

"[A decree] is not limited to prohibition of the proven means by which the evil was accomplished, but may range broadly *through practices connected with acts actually found to be illegal.* . . . We turn then to the Government's proposals for modification of the decree on *the assumption that only a*

Court found a "narrow antitrust violation" (Op. 13); and the Court equates "narrow" with the "concerted price-fixing under the former patent licenses" (Op. 14), so that the only proved misuse which emerges is mere price-fixing. This, we respectfully submit, is an erroneous reading of the quoted portion of the Court's enlargement opinion.

Certainly, the statement in the enlargement opinion "'* * * we read the preliminary statement of the District Court . . . as an adjudication of violation of the Sherman Act by the action in concert of the defendants through the fixed-price licenses" is not an adjudication that price-fixing only was illegal. For everything that was illegally done by the defendants was done "*through* the fixed-price licenses" (emphasis supplied). As above (p. 7) indicated, this Court in 1950 pointed out that these licenses were illegal *in toto* and on their face. The agreements themselves formed the basis of what was done and what was intended. What was done encompassed monopoly as well as mere price-fixing, as we have shown. It also encompassed standardization of trade practices, elimination of jobbers, restraints on unpatented products—a complete regimentation of the industry.

Nor can it be said that the Court's reference to the "narrow limits of the proven violation" means that the violation was limited to price-fixing. Much of the Government's proof was put in issue by Gypsum's proffer. The restraints shown by the undisputed facts, and not put in issue by Gypsum's proffer (as this Court held in 1950) were, it is true, narrower (as the Court now says) than those alleged in the complaint. It is entirely inaccurate,

---

violation through concerted industry license agreements has been proven, but recognizing, as is conceded by defendants, that relief, to be effective, must go beyond *the narrow limits of the proven violation.*" 340 U. S. 87-89, 90. (Emphasis supplied)

however, to say that on this record the only restraint shown is price-fixing. The defendants' undisputed acts with respect to standardization of practices and restraints on unpatented products and elimination of jobbers were not merely "practices connected with acts actually found to be illegal." They were in themselves unlawful restraints, and taken together with all of the provisions of the license agreement, they formed the basis for the monopoly adjudication.

The crowning proof that this Court in 1950 regarded the violation here as industry-wide restraints and regimentation and monopolization rather than mere price-fixing is its reference to the *National Lead* case as the guiding precedent on matters of relief. This Court in 1950 in remanding this case to the lower court, stated:

> "In United States *v.* National Lead Co., 332 U. S. 319, 335-351, we recently dealt with problems of licenses and royalties after a finding of Sherman Act violation. The arrangements on account of which the companies manufacturing titanium pigments in that combination were adjudged violators *were as offensive to the prohibitions of the Sherman Act as those proven in the present case.*" 340 U. S. 76, 93. (Emphasis supplied)

In the *National Lead* case, the violation was not limited to price-fixing. It included other restraints and monopolization as well, *and the relief included an injunction against pre-decree infringement suits on the misused patents.*

In view of the above, the court below could hardly have read this Court's opinion in 340 U. S. as limited to price-fixing. The court below naturally followed the *National Lead* case, and in so doing, invoked a remedy which the *National Lead* case and *Hartford-Empire* (discussed later) held to be appropriate.

II.

The Court's errors were made *sua sponte*.

We have demonstrated that this Court's ruling that "the only patent misuse that has ever been established in this long drawn-out litigation is concerted price fixing under the former patent licenses" (Op. 14) is erroneous. This is also a ruling that the other restraints of trade and Gypsum's monopolization of the gypsum board industry in violation of Section 2 were never adjudicated. Nowhere in these proceedings did Gypsum make any contention which would occasion this ruling and it must be concluded that this Court arrived at it *sua sponte*.

In its Brief in Opposition to the Motion to Affirm (p. 10), and in its principal brief to this Court, (p. 69), Gypsum referred, without dispute, to the Trial Court's description of the "heart of the final decree" as the adjudication in Article III of the decree, affirmed by this Court, "that the defendant companies had acted in concert in restraint and monopolization of trade and commerce in the gypsum board industry in violation of Sections 1 and 2 of the Sherman Act." Gypsum made no attempt either on this appeal or in the Court below to challenge this finding. It acknowledged in its principal brief (p. 55) that price-fixing was not the only adjudicated violation, by stating, in support of its claim to purge, that "price fixing and *all other objectionable features* had been removed" from its license agreements (emphasis supplied).

By the same token, since the matter was not argued by Gypsum it was not argued by National which could not reasonably anticipate that this Court in effect would overrule its earlier decisions in 339 and 340 U. S. and those of the District Court as embodied in Articles III and IV of

the decrees of 1949 and 1951. Since National could not reasonably anticipate the *ratio decidendi* of this Court on an issue not raised by the appellant, National has been deprived of the opportunity to be heard on the scope and meaning of the prior ajudications. Consequently, National now respectfully requests that opportunity.

III.

The Court's factual errors formed the basis of its two controlling rulings.

The factual errors made in the opinion herein go to the very heart of this controversy. If corrected, as they should be on rehearing, it necessarily follows that the decree below should be affirmed.

The extent of the violation, and the facts on which it rested, formed the basis of two controlling rulings made in the opinion herein.

The first ruling was that the Court below was not justified in holding that there was unpurged misuse until (at least) the Final Decree of May 15, 1951. The second ruling was that the *Hartford-Empire* case did not justify the modification by the court below of the 1951 Decree so as to enjoin pre-decree royalties. Both rulings depend on the assumption that the violation was a narrow one of price-fixing.

On a corrected appraisal of this record, extensive patent misuse has been found. The fount for the aggregation of restraints and monopolization was the illegal patent license agreements. There is no dispute that these agreements continued in effect until at least March, 1948, when most licensees ceased their payment of royalties. There is no dispute that the licensees' payments until March, 1948

were for unpatented as well as for patented board (supra, p. 10). There is no dispute that until March, 1948 (indeed, until this Court's injunction of May, 1950), Gypsum had the power to implement the price-fixing provisions of its license agreements by issuing new bulletins. There is no dispute that the license agreements, so long as they remained in effect, gave to Gypsum the power to prevent its licensees from selling gypsum board to jobbers. There is no dispute that the scope of the violation included not merely the price-fixing provision of the patent licenses but the entire agreements (1949 and 1951 Decrees, Art. IV). Patent misuse continued, certainly, at least until March, 1948.

On this record, therefore, Gypsum's appeal presented two questions to this Court—neither of which was passed on:

A. Did the District Court properly hold that the Roos patent which was misused to accomplish an aggregation of restraints and to monopolize an industry was not purged until the Final Decree of May 15, 1951? The reasons for the District Court decision were (1) the patent misuse having continued until at least 1948, the burden of going forward to show purge shifted to Gypsum, and Gypsum never met this burden; (2) in any event, a patent so misused is not purged until it is made available to applicants at a reasonable royalty and free of restrictions; and this event occurred for the first time on May 15, 1951.

B. Apart from purge (Op. 1C), did the District Court properly modify its decree in the light of the *Hartford-Empire* and *National Lead* precedents so as to enjoin pre-decree royalty claims?

A.

1. The Court states (Op. 15):

> "... The record shows, without dispute so far, that for seven years before the beginning of the 1948-1951 period Gypsum had not engaged in price fixing, and that for two of those three years price fixing had been under injunction. These factors raised a sufficient inference of purge prior to the critical period to entitle Gypsum to go to trial on the point, and to prevent the court from granting what in effect was summary judgment."

If we are correct in our premise that the adjudication here involved more than price-fixing, and that the misuse continued until at least March, 1948, then it follows that the Court is in error in stating that the above factors raised sufficient inference of purge prior to the critical period.

Since it was the entire agreement that was illegal and not merely the price-fixing provision, neither failure to enforce the price-fixing provision, nor the Court's 1950 injunction, which ran against price-fixing (339 U. S. 960), can raise an inference of purge during the critical period.

It is clear that a patent does not automatically become enforceable when misuse terminates. A considerable period of time may elapse, depending upon the nature and extent of the misuse, between the termination of the misuse and the dissipation of its consequences—i.e., purge. Under the decisions of this Court the burden of going forward to prove purge rested on Gypsum.* Gypsum had ample

---

* In *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495, 498 (1942), this Court stated:

> "... petitioner suggests that it is entitled to relief because it is now willing to give unconditional licenses to manufac-

opportunity to show that it had effectively purged the misuse of its patents during the critical period. The fact is that it made no offer whatever to do so in the lower Court, and did not attempt to meet its burden.

Gypsum chose to proffer nothing; the District Court properly assumed it had nothing to prove; and the District Court therefore properly ruled that appellees were entitled to a summary judgment of non-purge.

On this record there was active misuse until March, 1948, monopolization and an aggregation of restraints; and Gypsum utterly failed to meet its burden of going forward to show purge during the critical period (March, 1948-May, 1951).

2. Irrespective of considerations of the burden of going forward to show purge, we respectfully submit that on a correct appraisal of the scope of Gypsum's patent misuse the Court should hold that no purge could have occurred with respect to Roos Patent 2,017,022 until it was made available to applicants at a reasonable royalty and free of restrictions, an event which occurred for the first time on May 15, 1951.

If we assume, correctly on this record, broad industry monopolization and an aggregation of restraints, it is not

---

turers on a royalty basis, which it offers to do. It will be appropriate to consider petitioner's right to relief when it is able to show that it has fully abandoned its present method of restraining competition in the sale of unpatented articles and that the consequences of that practice have been fully dissipated."

In *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488, 493 (1942), this Court stated:

"Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement, and should do so at least until it is made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated."

unreasonable to hold, as a proper application of the law of purge, that this patent cannot be deemed purged until it is thrown open to the public at a reasonable royalty and free of restrictions. In such circumstances it is not unreasonable to say there could be no purge until a final effective decree was entered on May 15, 1951.

At any rate, this Court should hear argument and pass upon these questions now, since they are the real questions of purge presented to it on this record. See National's main brief pp. 69-77.

B.

Apart from purge, we respectfully submit that the modification made by the Court below in this case of industry monopolization and aggregation of restraints, was properly within its discretion. The modification provided the same remedy as the *National Lead* case had provided; and the *National Lead* case was set forth by this Court in its enlargement opinion (340 U. S. 76) as a guide to the lower court on appropriate remedies. At any rate, the propriety of the lower court's exercise of discretion in modification of its decree should be argued and passed upon by this Court in light of a correct appraisal of the prior proceedings. See National's main brief pp. 54-59.

Conclusion.

For the foregoing reasons, it is respectfully urged that this petition for a rehearing be granted, and that the decree of the District Court, upon further consideration, be affirmed.

Respectfully submitted,

SAMUEL I. ROSENMAN,
ELMER E. FINCK,
SEYMOUR D. LEWIS,
MALCOLM A. HOFFMANN,
SEYMOUR KRIEGER,
GILBERT S. EDELSON,

Attorneys for
NATIONAL GYPSUM COMPANY

Of Counsel:

FINCK & HUBER,
804 Liberty Bank Building,
Buffalo 2, New York.

ROSENMAN GOLDMARK COLIN & KAYE,
575 Madison Avenue,
New York 22, New York.

SEYMOUR KRIEGER,
777 Fourteenth St., N.W.
Washington 5, D. C.

Certificate of Counsel.

I, SAMUEL I. ROSENMAN, counsel for the above-named appellee, do hereby certify that the foregoing petition for a rehearing of this cause is presented in good faith and not for delay.

.....

SAMUEL I. ROSENMAN
Counsel for
NATIONAL GYPSUM COMPANY

Office - Supreme Court
FILED
MAR 21 19
JOHN T. FEY, C

IN THE

Supreme Court of the United States

OCTOBER TERM, 1956

No. 11

UNITED STATES GYPSUM COMPANY,
Appellant,

vs.

NATIONAL GYPSUM COMPANY, *et al.*,
Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA.

PETITION FOR REHEARING OF APPELLEE CERTAIN-TEED PRODUCTS CORPORATION.

DONALD N. CLAUSEN,
HERBERT W. HIRSH,
NORMAN A. MILLER,
Attorneys for Certain-teed Products Corporation.

Of Counsel:
CLAUSEN, HIRSH & MILLER,
135 South La Salle Street,
Chicago 3, Illinois.

PURCELL & NELSON,
910 17th Street, N. W.,
Washington 6, D. C.

Pandick Press, Inc., 22 Thames St., New York 6, N. Y., U. S. A.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1956

No. 11

UNITED STATES GYPSUM COMPANY,

Appellant,

vs.

NATIONAL GYPSUM COMPANY, *et al.*,

Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA.

PETITION FOR REHEARING OF APPELLEE CERTAIN-TEED PRODUCTS CORPORATION.

Appellee, Certain-teed Products Corporation, joins in the petition for rehearing of the above entitled cause filed by appellee, National Gypsum Company, and adopts such petition in its entirety as and for the petition for rehearing of Certain-teed Products Corporation.

For the reasons contained in the petition of National Gypsum Company, it is respectfully urged that this petition

for a rehearing be granted and that the decree of the District Court be, upon further consideration, affirmed.

Respectfully submitted

DONALD N. CLAUSEN
HERBERT W. HIRSH
NORMAN A. MILLER
Attorneys for Certain-teed
Products Corporation

CLAUSEN, HIRSH & MILLER,
135 South La Salle Street,
Chicago 3, Illinois.

PURCELL & NELSON,
910 17th Street, N.W.,
Washington 6, D. C.,
Of Counsel.

Certificate of Counsel.

I, NORMAN A. MILLER, counsel for the above-named appellee, do hereby certify that the foregoing petition for a rehearing of this cause is presented in good faith and not for delay.

NORMAN A. MILLER
Counsel for Certain-teed
Products Corporation

FILED
APR 30 19
JOHN T. FEY,

IN THE

Supreme Court of the United States

OCTOBER TERM, 1956.

No. 11

UNITED STATES GYPSUM COMPANY,
Appellant,

vs.

NATIONAL GYPSUM COMPANY, *et al.*,
Appellees.

MOTION FOR THE RE-TAXING OF COSTS.

SAMUEL I. ROSENMAN,
ELMER E. FINCK,
Attorneys for National Gypsum Company.

Of Counsel:

FINCK & HUBER,
804 Liberty Bank Building,
Buffalo 2, New York.

ROSENMAN GOLDMARK COLIN & KAYE,
575 Madison Avenue,
New York 22, New York.

Pandick Press, Inc., 22 Thames St., New York 6, N. Y., U. S. A.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1956.

No. 11

UNITED STATES GYPSUM COMPANY,

Appellant,

vs.

NATIONAL GYPSUM COMPANY, *et al.*,

Appellees.

MOTION FOR THE RE-TAXING OF COSTS.

Appellee, National Gypsum Company (National), respectfully moves this Court to re-tax costs in the above action and to assess one-half of the costs against appellant, United States Gypsum Company (Gypsum). Costs should be re-taxed because, although this Court affirmed in part and reversed in part the judgment of the court below, costs of $7,020.80 have been taxed solely against appellees.

There were six issues before this Court on appeal. The first issue was whether the court below had jurisdiction to modify its 1951 Decree. The remaining five issues were whether the court below properly modified its decree to enjoin Gypsum from maintaining each of the five counts of its action in the Iowa Court, i.e., two counts based on the royalty provisions of the illegal contracts; two counts in *quantum meruit* and one count in infringement. The Court found that the enjoining of the latter three counts (*quantum*

meruit and infringement) was not justified upon the record and, as to these counts, remanded the cause to the court below for the taking of evidence. The Court affirmed the lower court's holding as to the other three issues: the holding that the court below had jurisdiction to modify its 1951 Decree, and the determination that Gypsum's first two counts (on the illegal contract) were barred by that decree.

This case, therefore, was a partial victory for Gypsum, and a partial victory for appellees; the judgment of the lower court was reversed only in part. Three important elements of that judgment still stand.

The importance of the affirmed elements of the lower court's holding is demonstrated by the great length of the arguments by all parties on these points in their briefs both in this Court and in the court below.* The Government's position before this Court and in the court below was confined exclusively to these points. Furthermore, the question of jurisdiction was separately designated by Gypsum as one of the questions on appeal (Jurisdictional Statement, p. 5).

In view of the fact that a substantial part of the judgment of the court below was affirmed, and in view of the demonstrated importance of the issues on which the judgment of the court below was affirmed, it is respectfully submitted that appellant Gypsum should be required to pay one-half the costs of the appeal.

---

* Fully one-half of the Argument section of Gypsum's brief in the court below is devoted to a discussion of these issues (Gypsum Brief Below pp. 38-68, 86-99, 122-131), National and Certain-teed likewise argued these issues at length in their briefs below. (National Brief Below pp. 30-32, 68-81; National Reply Brief Below pp. 27-40; Certain-teed Brief Below, pp. 18-31; Certain-teed Reply Brief Below pp. 21-26). These points were again briefed at great length before this Court (Gypsum Brief pp. 20-21, 26-35, 62-74; Gypsum Reply Brief, 13-16; National Brief 23-24, 28-48; Certain-teed Brief, 24-25, 32-43.)

Conclusion.

For the reasons hereinbefore stated, the Court should amend that part of its mandate taxing costs of $7,020.80 against appellees and should re-tax costs as follows:

Appellant	
United States Gypsum Company	$3,510.40
Appellees	
National Gypsum Company Certain-teed Products Corporation	3,510.40
	$7,020.80

Respectfully submitted,

SAMUEL I. ROSENMAN,
ELMER E. FINCK,
Attorneys for National Gypsum Company.

FILE
MAY 15 1
JOHN T. FEY,

IN THE

Supreme Court of the United States

OCTOBER TERM, 1956.

No. 11

UNITED STATES GYPSUM COMPANY,
Appellant,

vs.

NATIONAL GYPSUM COMPANY, ET AL.,
Appellees.

BRIEF IN OPPOSITION TO MOTION FOR THE RE-TAXING OF COSTS.

BRUCE BROMLEY,
CRANSTON SPRAY,
ROBERT C. KECK,
JOHN D. CALHOUN,
HUGH LYNCH, JR.,
Attorneys for Appellant.

CRAVATH, SWAINE & MOORE,
15 Broad Street,
New York 5, New York,

MACLEISH, SPRAY, PRICE & UNDERWOOD,
134 South La Salle Street,
Chicago 3, Illinois,

MACLEAY, LYNCH & MACDONALD,
1625 K Street, N. W.,
Washington 6, D. C.,
Of Counsel.

IN THE

Supreme Court of the United States

OCTOBER TERM, 1956.

No. 11.

UNITED STATES GYPSUM COMPANY,
Appellant,

vs.

NATIONAL GYPSUM COMPANY, ET AL.,
Appellees.

BRIEF IN OPPOSITION TO MOTION FOR THE RE-TAXING OF COSTS.

Appellant, United States Gypsum Company (Gypsum), opposes the motion of appellee, National Gypsum Company (National), to re-tax the costs of appeal in this action.

A. The Costs Were Properly Taxed.

For at least a century, it has been the practice of this Court, when reversing a judgment in some major part, to charge costs only to the appellee or respondent. See *Baldwin* v. *Ely*, 9 How. 580, 602 (1850). Even where a judgment of the Court, reversing in part and affirming in part, lacks express provision for costs (unlike the instant judgment*), the Court has sanctioned a usage of the Clerk,

* The judgment of the Court in this action directed:

"* * * that the judgment of the said United States District Court in this cause be, and the same is hereby, reversed with

placing the costs upon the appellee or respondent. In point is *St. Louis & S. F. R. Co.* v. *Spiller,* 275 U. S. 156 (1927), where the Court unanimously denied a motion to re-tax costs, based, *inter alia,* on the ground that equity required, on a reversal in part and affirmance in part, a division of costs. Justice Brandeis, writing for the Court, observed:

> "* * * At no time has the rule expressly prescribed whether costs shall be allowed when the judgment or decree below is reversed only in part. But it has long been the practice of the Clerk to insert in the mandate, in such cases, the provision for payment of costs by the defendant in error, appellee or respondent, in the absence of specific direction by the Court. The acquiescence of the Court in this practice has operated to give effect to it as a practical construction of the rule." (275 U. S. at 160.)

The rule of the Court applied in the *Spiller* case** is in substance the same as present Rule 57(2) of the Court, the rule under which the costs of this appeal were assessed. The practice approved in the *Spiller* case, of placing costs, on a reversal in part, upon the appellee, continues to be honored by the Court. See *Calmar S. S. Corporation* v. *Taylor,* 303 U. S. 525 (1938), and on motion to retax costs, 59 Sup. Ct. 56 [Not officially reported]. Cf. *Electrical Fittings Corp.* v. *Thomas & Betts Co.,* 307 U. S. 241 (1939),

---

costs; and that this cause be, and the same is hereby, remanded to the United States District Court for the District of Columbia for further proceedings not inconsistent with the opinion of this Court.

"It is further ordered that the said appellant, United States Gypsum Company, recover from the National Gypsum Company et al. Seven Thousand Twenty Dollars and Eighty Cents ($7,020.80) for its costs herein expended and have execution therefor.

Per Mr. Justice Harlan
February 25, 1957"

** Rule 29(3) of the Revised Rules, adopted June 8, 1925 (266 U.S. 675).

and on motion to retax costs, 59 Sup. Ct. 1040 [Not officially reported].

B. The Costs Should Be Borne by Appellees.

The thrust of the Gypsum appeal to this Court can be simply put. It was a claim that the 1951 decision and final decree of the court below did not, *per se,* bar prosecution of the four Gypsum compensation and damage suits. Appeal was necessary because the district court had held, upon a record closed in 1941, that Gypsum could be barred from claiming for use of its patents through the years 1948 to 1951. As this Court pointed out in its opinion (352 U. S. at 466), the decision below held Gypsum barred, first, by reason of a so-called "fresh" patent misuse, a misuse unrelated to the original antitrust litigation; secondly, because the "old" misuse adjudicated in the Government antitrust proceeding remained unpurged; and finally, because the "old" misuse itself was deemed sufficient to bar suit for patent infringement, irrespective of purge. Each of those grounds this Court rejected.

Now, using a novel pica-gauge theory of jurisprudence [Motion, p. 2 fn.], National urges that appellees fought Gypsum to a draw on the appeal and that costs should be taxed accordingly.

Rule 57 of this Court serves a practical purpose. By setting up workable criteria for ascribing costs, it permits allocation of that function to the office of the Clerk, sparing this Court the need to practice, at the end of each decision, some vague calculus to fix provision for costs. Recognition of this purpose is immanent in the decision in *Spiller, supra.* It seems particularly important, where the party charged with the costs, as here, can bear them

without distress, that tampering with the mechanics of Rule 57 be avoided. Unless this Court would invite applications to retax, it should deny this motion.

Respectfully submitted,

BRUCE BROMLEY,
CRANSTON SPRAY,
ROBERT C. KECK,
JOHN D. CALHOUN,
HUGH LYNCH, JR.,
Attorneys for Appellant.

CRAVATH, SWAINE & MOORE,
15 Broad Street,
New York 5, New York,

MACLEISH, SPRAY, PRICE & UNDERWOOD,
134 South La Salle Street,
Chicago 3, Illinois,

MACLEAY, LYNCH & MACDONALD,
1625 K Street, N. W.,
Washington 6, D. C.,
Of Counsel.

May 14, 1957.

SUPREME COURT OF THE UNITED STATES

No. 11.—October Term, 1956.

United States Gypsum Company, Appellant, *v.* National Gypsum Company et al.	On Appeal From the United States District Court for the District of Columbia.

[February 25, 1957.]

Mr. Justice Harlan delivered the opinion of the Court.

United States Gypsum Company appeals from a decree of a three-judge court of the United States District Court for the District of Columbia, entered December 9, 1954. This decree modified a final decree of that court, entered May 15, 1951, against Gypsum, the appellees National Gypsum Company and Certain-teed Products Corporation, and others, in a civil antitrust proceeding instituted by the Government in 1940.[1] The modification was a provision ordering Gypsum to dismiss with prejudice four suits which it had brought in three different federal district courts against National, Certain-teed, and two other co-defendants in the antitrust proceeding, to recover compensation or damages for the *pendente lite* use of certain of its patents during the period February 1, 1948, to May 15, 1951.[2]

[1] Throughout this opinion United States Gypsum Company will be referred to as "Gypsum," National Gypsum Company as "National," and Certain-teed Products Corporation as "Certain-teed."

[2] The suits against National and Certain-teed were brought in the Northern District of Iowa. The other two suits were brought in the District of New Jersey, against Newark Plaster Company, and in the Southern District of New York, against Ebsary Gypsum Company. These latter suits have been settled and are not before us.

At the outset some mention of the prolonged antitrust proceeding is required to put the present post-decree controversy in context. In that proceeding the Government charged Gypsum, National, Certain-teed, and a number of other corporate and individual defendants with conspiracy to restrain and monopolize interstate commerce in gypsum board and other gypsum products in violation of §§ 1, 2 and 3 of the Sherman Act.[3] The crux of the Government's charges was the alleged illegality of Gypsum's system of industry-wide uniform patent licensing agreements containing clauses giving Gypsum the right to fix resale prices on gypsum board and products. In 1946, at the close of the Government's case, the District Court dismissed the complaint.[4] On appeal this Court, on March 8, 1948, reversed, and remanded the case for further proceedings.[5] Thereafter the District Court, with one dissent,[6] interpreting this Court's decision to mean that Gypsum's multiple uniform price fixing patent licenses were illegal *per se* under the antitrust laws, granted the Government's motion for summary judgment, accepting as true the defendants' proffer of proof. On November 7, 1949, the District Court entered a decree which, among other things, adjudged Gypsum's patent licensing agreements illegal, null, and void, enjoined the performance of such agreements, provided for limited compulsory nonexclusive licensing of Gypsum's patents on a reasonable royalty basis, and reserved jurisdiction over the case and parties for certain purposes. On appeals by both the Government and Gypsum, this Court, in 1950, dismissed Gyp-

---

[3] 26 Stat. 209 (1890), as amended, 15 U. S. C. §§ 1–3.

[4] 67 F. Supp. 397.

[5] 333 U. S. 364.

[6] The opinion of the court, and the dissenting opinion of the late Judge Stephens, are not officially reported. They appear at pp. 137–140, 478, of the record on this appeal.

sum's appeal,[7] affirmed the summary judgment below,[8] and held the Government entitled to broader relief in certain respects, remanding the case for that purpose.[9] Meanwhile, in noting probable jurisdiction on the Government's appeal, this Court enjoined the defendants from carrying out the pice fixing provisions of their current license agreements, and from entering into any agreements or engaging in concerted action in restraint of trade.[10] This preliminary injunction, entered May 29, 1950, remained in force until the new final decree of the District Court was entered on May 15, 1951.[11]

After this Court's 1948 reversal of the District Court's original order of dismissal, National, Certain-teed, and Gypsum's other co-defendant licensees ceased paying royalties under their license agreements.[12] Following the May 15, 1951, decree, National and Certain-teed, as authorized by Article VI of that decree, entered into new license agreements, effective May 15, for the future use of Gypsum's patents, such licenses containing no price fixing clauses; the royalty rate was the same as under the old licenses, except that the licensee's returns on unpatented gypsum products did not enter into its measure. The new licenses were without prejudice to Gypsum's claim for compensation for the use of the patents during the period February 1, 1948, to May 15, 1951. The respondents not having paid for that period, Gypsum, in 1953, brought suit against them in the Iowa federal court. The complaints in these suits asserted

---

[7] 339 U. S. 959.

[8] 339 U. S. 960.

[9] 340 U. S. 76.

[10] 339 U. S. 960.

[11] The significance of these various holdings as it bears upon the issues in the present controversy is dealt with later. *Infra*, pp. 10–16.

[12] In the case of National and Certain-teed the default period began with the February 1, 1948 royalties, due March 20, 1948.

three separate grounds for recovery: (a) the royalty provisions of the old license agreements (Counts I and II); (b) *quantum meruit* for the reasonable value of the use of the patents (Counts III and IV); [13] and (c) damages for patent infringement (Count V).

Thereafter, National and Certain-teed, claiming that the institution of the Iowa actions violated the 1951 decree, and that in any event Gypsum was barred from recovery by reason of unpurged misuse of the patents involved, petitioned the antitrust court to enjoin further prosecution of the actions.[14] The Government also filed a separate petition to enjoin Gypsum from maintaining any action based on the illegal license agreements, but took no position on Gypsum's right to recover for the period in question on the grounds of *quantum meruit* or patent infringement.[15] Gypsum's answers to these petitions in substance alleged that the District Court was without jurisdiction to grant the relief sought by the petitioners, and put in issue all of the allegations on which the right to relief was predicated.

The District Court decided that it had jurisdiction to grant relief (one judge dissenting), and, after hearing the parties through briefs and oral argument, but without taking any evidence beyond that already of record in the antitrust proceeding, concluded that the 1951 decree should be modified so as to enjoin the prosecution of

---

[13] The lower court, regarding Count III as declaring upon a contract implied in law, described that Count as being for "indebitatus assumpsit." The appellant says it was for "quantum meruit." As nothing here turns on the characterization, we shall refer to both Counts III and IV as "the quantum meruit" Counts.

[14] The Iowa court, upon motions by National and Certain-teed, stayed all proceedings in the two actions pending the determination of the antitrust court now under review.

[15] The Government takes the same position in this Court.

Gypsum's suits.[16] The court held that prosecution of Counts I and II, which declared upon the illegal license agreements, could not be maintained under the terms of the 1951 decree. Although finding that the other three Counts were not barred by that decree, it further held that the suits should be prohibited in their entirety because of Gypsum's unpurged misuse of its patents.[17] There followed the modifying decree of December 9, 1954,[18] from which this appeal was taken. We noted probable jurisdiction. 350 U. S. 946. For the reasons given hereafter we conclude that, except as it related to the two causes of action based on the illegal license agreements (Counts I and II), this proscriptive modification of the 1951 decree was not justified by the record before the District Court.

I.

Preliminarily, we conclude that three aspects of the lower court's holding must be upheld. First, we think that Article X of the 1951 decree, reserving to the antitrust court jurisdiction, upon application of "any of the

---

[16] 124 F. Supp. 573. Judge Cole dissented on the jurisdictional ground. 124 F. Supp. 598. On December 9, 1954, the District Court denied reconcideration, Record, p. 1136; and on June 30, 1955, it denied Gypsum's motion for a new trial. 134 F. Supp. 69.

[17] The court also held that Count III should be barred because it was "but a left-handed, indirect method for recovering such royalties." The court did not elaborate on this, but since it held that this Count was not "expressly or impliedly" covered by the 1951 decree we think this additional ground requires no separate discussion.

[18] The operative part of the decree reads as follows: "Defendant United States Gypsum Company is hereby ordered and directed to discontinue and to dismiss, with prejudice to United States Gypsum Company, its pending actions as follows: against National Gypsum Company, in the United States District Court for the Northern District of Iowa; against Certain-Teed Products Corporation, in the same District Court . . . ."

parties" to the decree, to make such "directions" and "modifications" as may be appropriate to the "carrying out" and "enforcement" of the decree, provided a fully adequate basis for the jurisdiction exercised below.[19] *United States* v. *Swift & Co.*, 286 U. S. 106, 114; *Missouri-Kansas Pipe Line Co.* v. *United States*, 312 U. S. 502. See also *Chrysler Corp.* v. *United States*, 316 U. S. 556. Gypsum argues that insofar as the relief granted below was rested upon patent misuse, instead of a construction of the 1951 decree which was the basis of enjoining the prosecution of Counts I and II of Gypsum's suits, the lower court's decision involved a determination of a collateral private controversy between this group of antitrust defendants, rather than a "carrying out" or "enforcement" of the terms of that decree. But we think that whether Gypsum was barred from recovery in these suits by reason of the abuse of its patent rights was a problem sufficiently related to the rationale of the 1951 decree to bring it within the reserved jurisdiction clause. This is especially so because patent misuse was the essence of the old antitrust litigation, and its continuance or renewal were thus issues peculiarly within the province of the antitrust court, whose determination would avoid multiple litigation and possibly conflicting decisions on that issue among the courts in which Gypsum had brought suit.

Likewise we conclude that there is no basis for disturbing the District Court's determinations that prosecution of Counts I and II, based on the old license agreements,

---

[19] Article X reads: "Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith."

was not permissible under the 1951 decree,[20] but that its terms did not reach the *quantum meruit* and infringement Counts.[21]

The outcome of this appeal then turns on whether the District Court was right in holding as a matter of law that Gypsum was barred from any kind of recovery for the *pendente lite* use of its patents because of their unpurged misuse. It is now, of course, familiar law that the courts will not aid a patent owner who has misused his patents to recover any of their emoluments accruing during the period of misuse or thereafter until the effects of such misuse have been dissipated, or "purged" as the conventional saying goes. *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U. S. 488; *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495; *E. Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394; *MacGregor* v. *Westinghouse Electric & Mfg. Co.*, 329 U. S. 402; *Mercoid Corp.* v. *Minneapolis Honeywell Regulator Co.*, 320 U. S. 680. The rule is an extension of the equitable doctrine of "unclean hands" to the patent field. In terms of this case this means that Gypsum may not recover from these appellees for their use of its patents between February 1, 1948, and May 15, 1951, if Gypsum has been guilty of misuse of the patents since 1948, or if the original misuse found in the antitrust litigation remained unpurged. This issue, of course,

[20] Article IV of the 1951 decree had adjudicated as to all defendants that these license agreements were "unlawful under the antitrust laws of the United States and illegal, null and void." Article V enjoined the defendants from "performing" such agreements. Cf. *Continental Wall Paper Co.* v. *Louis Voight & Sons*, 212 U. S. 227. It might be well to add that the 1951 decree would similarly prevent the use of these illegal agreements as defenses by co-defendants National and Certain-teed against the *quantum meruit* and infringement Counts of Gypsum's suits.

[21] As appears, *infra*, p. 16, the Government at one time had sought to bar all such claims for recovery on the patents, but later in effect abandoned that request for relief.

involves essentially a question of fact. And since the record is barren of any facts with respect to the situation existing in the gypsum industry since 1941, we think that the District Court erred in holding purely as a matter of law that an unpurged misuse had been shown.

II.

Putting aside the two contract Counts, the enjoining of which we have held was sufficiently supported by the court's finding that they could not be maintained under the terms of the 1951 decree, there are three aspects to the lower court's holding as to the remaining Counts. First, the court held those Counts barred because Gypsum had engaged in "fresh" patent misuse—misuse unrelated to the original antitrust litigation. Secondly, it was held that since the "old" misuse adjudicated in the antitrust proceeding had continued unpurged, recovery must in any case be barred.[22] And finally, the court held that irrespective of purge, the "old" misuse itself was sufficient to bar the patent infringement Count. We discuss each of these holdings in turn.

A.

The "fresh" misuse found by the lower court was simply the fact of the inclusion of Counts I and II in the 1953 suits. These Counts sought recovery of royalties under the illegal licensing agreements. Such inclusion, the court held, was a renewed attempt to enforce these illegal agreements, and as such should be regarded as a new misuse of the patents which barred recovery under the other Counts as well.[23] We do not agree.

---

[22] Counts I and II were also held barred on these grounds.

[23] We assume that if the inclusion of Counts I and II constituted a "fresh" patent misuse, the fact that they were not asserted until 1953 would make no difference in their effectiveness to bar recovery for the 1948–1951 period.

The five Counts in Gypsum's complaints were merely alternative legal theories for reaching a single end, namely, recovery for the *pendente lite* use of Gypsum's patents. Had the complaints declared only upon the *quantum meruit* and infringement Counts the mere bringing of the suits could then hardly have been regarded as fresh misuse, even though recovery might be defeated by showing some independent unpurged misuse of the patents involved. For as the lower court recognized, such recovery by way of *quantum meruit* or damages for infringement was not "expressly or impliedly" touched by the terms of the 1951 decree. Gypsum explains the inclusion of the two contract Counts as precautionary pleading to fend against the possibility that the defendants, if sued only for *quantum meruit* and infringement, might set up the license agreements in defense.[24] Such alternative pleading is expressly sanctioned by the Federal Rules of Civil Procedure, Rule 8, and, even though that defense has turned out to be untenable in light of the lower court's findings, we think that it distorts the doctrine of patent misuse to hold that recourse to this method of pleading here vitiated the other Counts of the complaints.[25]

Moreover, in view of what transpired before the antitrust court in the hearings relating to the settlement of the 1949 decree, we are by no means satisfied that Gypsum was not entitled to a bona fide guess, at least as a matter of alternative pleading, that the decree would not be interpreted as barring the collection of these interim royalties. At those hearings counsel for one of the

---

[24] National had in fact pleaded that defense in the suit against it. But see n. 20, *supra*.

[25] In view of this conclusion it is unnecessary to deal with the contention that the lower court's holding also violated 35 U. S. C. § 271 (d).

defendants, Celotex, without remonstrance by either of these respondents, stated:

> "In order that United States Gypsum will have no misunderstanding of my position, I want them to know that my suggestion [that the decree should declare the licenses 'illegal, null and void'] is in no sense based on any hope or desire on my part to get out of any license fees during any interim period, and if we can agree . . . as far as my client is concerned, we are willing to let the royalty rate [of the new compulsory licenses], whatever it is, agreed upon apply back to the time when we ceased paying royalties. I just want to make it clear to all that we are not attempting by this declaration of illegality of them to find some way of avoiding the license fees which during this [litigation] none of us have paid."

Further, both the Government and the other co-defendants at that time seem to have regarded the "illegal, null and void" provisions of the decree as simply the equivalent of "cancellation" of the licenses. In view of the narrow adjudication of violation by this Court, *infra*, p. 12, we cannot say that Gypsum could not have reasonably entertained the belief that the price fixing provisions of the license agreements would ultimately be held separable from the basic undertaking to pay royalties. Indeed, the new licenses, authorized by the decree, which omitted the price fixing clauses, carried the same royalty rate on products made under the patents.

We conclude that in the circumstances present here it was error to regard the inclusion of the contract Counts as constituting a "fresh" patent misuse on Gypsum's part.

B.

We come next to the holding that the "old" misuse, found in the antitrust proceeding, continued unpurged

through the 1948–1951 period. And here we are met immediately by the fact that the record before the antitrust court is completely bare of any facts relating to this period, or indeed any period after 1941. For the Government's proof in the antitrust case, presented from 1940 to 1944, concerned the gypsum industry prior to and until 1941, and no further evidence has ever been introduced into any of these litigations. We thus know literally nothing about the state of the gypsum industry between 1948, when this Court, on evidence not extending beyond 1941, first held that there had been an antitrust violation, and 1951. How, then, can we assume that this earlier violation, adjudicated for the first time in 1948, continued thereafter?

The answer to this question depends on the nature and extent of that violation. According to Gypsum, the only illegality ever adjudicated was the fixing of prices on gypsum materials under the industry-wide uniform price fixing clauses of patent licenses which were found to have been the product of concerted action between Gypsum and its co-defendants. In other words, Gypsum, relying on the 1949 decree, which followed this Court's first decision, and its underlying findings,[26] argues that the maintenance of uniform patent licenses with price fixing clauses was the only patent misuse ever found. It then points out that it offered to prove below that price fixing in the industry stopped in 1941, and that the licenses were rescinded in 1948. Add to this the fact that the 1949 decree, and again this Court's 1950 interlocutory decree, enjoined Gypsum from enforcing these licenses, and, says Gypsum, the inference arises that the only patent misuse ever adjudicated had ceased by 1948—an inference at least sufficient to allow the issue to go to trial on the facts.

---

[26] See n. 6, *supra*.

According to appellees National and Certain-teed, however, the adjudication of misuse in the antitrust proceeding was much broader, encompassing the regimentation of the entire gypsum industry, the restraint of commerce in unpatented gypsum products, the elimination of jobbers, and the standardization of trade practices throughout the industry. This broad view of the character of the antitrust violation rests upon this Court's 1950 decision, which held the 1949 decree too narrow and allowed the Government the broader relief embodied in the 1951 decree.[27] Appellees argue that the fact that this Court felt it necessary to broaden the 1949 decree involved by necessity an adjudication of broad patent misuse, misuse not prohibited by the 1949 decree and therefore left unpurged by it. In other words, the argument runs, the broadening of the decree by this Court necessarily involved a holding that Gypsum was guilty of violations not proscribed by the original decree, violations which existed unpurged during part or all of the 1948–1951 period, since they were first adjudicated by this Court in 1950 and presumptively continued until 1951, when they were finally dealt with by the 1951 decree.

Appellees' argument is ingenious, but incorrect. The course of decisions in the antitrust litigation clearly shows that the only misuse ever *adjudicated* was that arising from the uniform price fixing provisions of the license agreements. In the original suit the only undisputed issue of fact was that Gypsum had given its competitors uniform patent licenses containing a price fixing clause. The Government also charged Gypsum with a variety of

---

[27] 340 U. S. 76. This relief included the extension of the injunctive provisions to the entire United States (instead of merely the east) and to all gypsum products (instead of only gypsum board), compulsory licensing for an indefinite period (instead of for only 90 days), such licensing to include after-acquired (instead of only existing) patents.

other abuses, including price fixing on unpatented articles, elimination of jobbers, and standardization of trade practices. All of these charges were put in issue by Gypsum. On the appeal from the original dismissal of the proceedings, this Court held that the uniform price fixing licenses constituted a *per se* antitrust violation, and also that the Government's evidence as to the other matters constituted a *prima facie* case of additional violation.[28] On remand, the District Court, instead of going into a factual trial of these other matters, granted summary judgment on the price fixing violation. This left all of the other matters still at issue. They continued to remain at issue after the ensuing appeals to this Court, for in affirming the summary judgment,[29] and broadening the 1949 decree,[30] this Court made it clear that it was proceeding solely on the basis of the narrow antitrust violation found by the District Court: [31]

> "We agree with a statement made by counsel for the Government in argument below that as a 'matter of formulating the decree' many facts offered to be proven would have effect upon the conclusion of a court as to the decree's terms. However, we read the preliminary statement of the District Court . . . as an adjudication of violation of the Sherman Act by the action in concert of the defendants through the fixed-price licenses, accepting as true the underlying facts in defendants' proof by proffer. The trial judges understood the summary judgment to be, as Judge Stephens said 'limited to that one undisputed question.' Judge Garrett and Judge

[28] 333 U. S. 364.
[29] 339 U. S. 960.
[30] 340 U. S. 76.
[31] As we have seen, *supra*, pp. 2–3, the Court dismissed Gypsum's appeal from the 1949 decree. 339 U. S. 959.

Jackson ageed. That conclusion entitled the Government only to relief based on that finding and the proffered facts. On that basis we dismissed United States Gypsum's appeal from that decree, and on that basis we examine the Government's objection to the decree.

. . . . .

"[A decree] is not limited to prohibition of the proven means by which the evil was accomplished, but may range broadly through practices connected with acts actually found to be illegal. . . . We turn then to the Government's proposals for modification of the decree on the assumption that only a violation through concerted industry license agreements has been proven, but recognizing, as is conceded by defendants, that relief, to be effective, must go beyond the narrow limits of proven violation." 340 U. S. 87–89, 90.[33]

Thus we see that the only patent misuse that has ever been established in this long drawn-out litigation is concerted price fixing under the former patent licenses, and that the 1950 holding of this Court was not an adjudication of other violations but only an application of the

---

[33] That this Court's expansion of the 1949 decree did not involve a corresponding holding of broader violation is illustrated by what was done with respect to the geographical area covered by the decree. The Government's complaint charged Gypsum with violation only in the *eastern* part of the United States. There was never any claim, much less proof, that Gypsum engaged in any improper activities in the *west*. Yet the Court granted the Government's prayer that the 1949 decree be broadened to cover the whole United States. This was done not because it was alleged or proved that Gypsum had done anything illegal in the west, but simply on the theory that effective relief required that the decree be broader than the "proven violation."

well known principle that relief in antitrust cases may range beyond the narrow area of proven violations. Nothing, therefore, in the broadening of the decree supports the inference that the acts prohibited therein and left open in the 1949 decree continued in the *pendente lite* period or, in fact, had ever taken place. Perhaps Gypsum did engage in broad regimentation of the industry, as charged in the Government's 1940 complaint, and perhaps such misuse or its effects continued through 1951. But there is nothing in this record to show that any such hypothesis is true, and no part of it has ever been proved. The question is one of fact, and Gypsum is entitled to go to trial on it.

Nor is it enough to sustain the judgment below to say, as appellees do, that the conceded "old" misuse, consisting of industry-wide price fixing through uniform patent licenses, should be presumed to have continued unpurged into the 1948–1951 period. The record shows, without dispute so far, that for seven years before the beginning of the 1948–1951 period Gypsum had not engaged in price fixing, and that for two of those three years price fixing had been under injunction. These factors raised a sufficient inference of purge prior to the critical period to entitle Gypsum to go to trial on the point, and to prevent the court from granting what in effect was summary judgment. Cf. *United States* v. *Oregon State Medical Society*, 343 U. S. 326. Nor do we think this conclusion is overcome by the lower court's findings that the "five acts" of purge offered by Gypsum were not sufficient to establish purge. We express no opinion upon the merits of these findings, for their sufficiency can hardly be judged in isolation from the facts as to competitive conditions in the gypsum industry during the 1941–1951 period, on which the record is silent. And other alleged antitrust violations are not now available to appellees

as acts of misuse, for as to them Gypsum has not yet had its day in court.

We conclude, therefore, that the judgment below cannot be supported on the basis of the claimed unpurged "old" misuse.

C.

We pass lastly to the lower court's holding that the "old" misuse, without regard to purge, barred the infringement Count of Gypsum's suits. In effect this holding was that, because "of the practical and legal situation," proscription of this Count should be added by relation back, as it were, to the relief already accorded by the 1951 decree. Admittedly such relief was neither obtained nor sought by the Government in either the 1949 or 1951 decree proceedings. To be sure one of the prayers for relief in the Government's antitrust complaint in 1940 had been that the defendants should be enjoined from bringing any action for infringement of any of the patents involved or from attempting to collect in any way royalties or fees for their use until all misuse had been abandoned and its consequences dissipated. In the subsequent 1949 and 1951 decree and appellate proceedings, however, this item of proposed relief was never adverted to, much less pressed upon the courts. And even in the 1953–1954 modification proceedings, and now, the Government does not contend that Gypsum is precluded from maintaining the infringement Count. The conclusion seems inescapable that the Government's original request for such relief was in effect withdrawn. In this state of affairs we think this relief should not have been added to the decree in 1954, in the absence of proof of intervening circumstances indicating its need in the public interest. Cf. *Hughes* v. *United States*, 342 U. S. 353. There was no such proof, and without it the proscription of the infringe-

ment Count amounted to the imposition of an unwarranted penalty on Gypsum.

Nor do we think that anything in the *Hartford Empire* cases, 323 U. S. 386, 324 U. S. 570, to which the lower court attached much weight, justifies what was done here. The basic difference between *Hartford* and this case is that in *Hartford* the injunction against infringement suits on Hartford's misused patents was part of the *original* relief granted the Government, whereas here that relief was added, without the taking of any evidence as to justifying intervening circumstances, some five years after the original decree was entered in the District Court, and three years after its enlargement pursuant to the 1950 decision of this Court,[33] which made no mention of this type of relief.

Moreover, the factors justifying such relief in *Hartford* were quite different from those involved here, in that the litigated findings of fact as to Hartford's violation of the antitrust laws were much broader than anything found here. See *supra*, p. 12. Beyond this, in *Hartford* only infringement suits against nondefendants were enjoined, and not, as here, suits against co-defendants; and despite the breadth of Hartford's violations, this Court held that Hartford was entitled to *quantum meruit* compensation for the *pendente lite* use of its patents unless *further* violations of the antitrust laws during that period were shown. No such violations on Gypsum's part were shown or claimed by the Government or appellees, except for the inclusion of the contract Counts in Gypsum's suits, a contention which has already been met. And although the Court in *Hartford* struck down royalty-free compulsory licensing as part of the relief, the District

[33] 340 U. S. 76.

Court here in effect held these appellees entitled to three years' free use of Gypsum's patents. We thus find no parallel between this case and *Hartford*.[34]

Our conclusions then are these: The enjoining of Counts I and II of Gypsum's Iowa suits was proper, and upon remand the District Court may, by appropriate modification of the decree of May 15, 1951, or otherwise, require Gypsum to discontinue and dismiss such Counts with prejudice. The enjoining of Counts III, IV and V of those suits was not justified upon this record, and as to them the case should be remanded to the District Court for the taking of evidence upon the issues of misuse and purge as they may relate to the period since February 1, 1948. We think it appropriate that these issues should be tried and disposed of by the antitrust court, rather than the Iowa court, both because of reasons already given, *supra*, pp. 5–6, and because of the antitrust court's familiarity with what has occurred in these protracted litigations.[35] However, should the antitrust court conclude that Gypsum is not barred fom recovery on Counts III, IV or V by reason of unpurged patent misuse, we think that the trial and disposition of all other issues,

---

[34] National makes a further contention as to the *quantum meruit* Counts. It argues that these Counts in any event were properly proscribed because they related to an illegal transaction. But the rule on which National relies applies only where the *quantum meruit* claim declares upon an implied agreement which, had it been reduced to an express contract, would itself have been illegal; that is, a contract where the kind of consideration moving between the parties is wholly against public policy, as, for example, a contract to commit murder. The implied contract here was not of that character, for certainly an express contract simply for reasonable compensation for the use of Gypsum's patents would not have been illegal.

[35] We recognize that the composition of the three-judge court has completely changed since the main antitrust case was tried. Even so, the present court has acquired an intimate knowledge of the record.

including any defense of patent invalidity, should then take place in the District Courts in which the two suits are pending. There is no reason why the three-judge court should be burdened with such issues.

Accordingly, we reverse the judgment below and remand the case to the District Court for further proceedings not inconsistent with this opinion.

Reversed and remanded.

MR. JUSTICE CLARK took no part in the consideration or decision of this case.

SUPREME COURT OF THE UNITED STATES

No. 11.—October Term, 1956.

United States Gypsum Company, Appellant, *v.* National Gypsum Company et al.	On Appeal From the United States District Court for the District of Columbia.

[February 25, 1957.]

Mr. Justice Black, with whom The Chief Justice and Mr. Justice Douglas join, dissenting.

I would affirm the judgment of the United States District Court.

For many years appellees used patents belonging to the appellant, United States Gypsum Company, under certain license agreements. On March 8, 1948, this Court decided that on the record before it these license agreements constituted a conspiracy between Gypsum and its licensees to violate the Sherman Act. 333 U. S. 364. Appellees then ceased paying royalties under their license agreement until May 15, 1951, on which date the United States District Court rendered a final decree holding the license agreements null and void. On this latter date new patent licenses were obtained from Gypsum which did not contain the illegal provisions and were not part of a conspiracy to violate the Sherman Act. This is a suit to make appellees pay for the use of Gypsum's patents during the period of February 1, 1948, to May 1951. Gypsum seeks payment in five separate counts. Counts one and two assert claims under the old outlawed license agreements. I agree with the Court's holding that Gypsum cannot recover on these counts. I also agree that the patent misuse rule which bars recovery "is an extension of the equitable doctrine of 'unclean hands' to

the patent field." I disagree with the Court's holding that Gypsum is not barred from attempting to recover for the use of its patents during the period on the other three counts of "quantum meruit," "indebitatus assumpsit," and "infringement."

In declining to permit Gypsum to recover under the license agreements the Court here necessarily does so on the ground that the licenses were a part of an unlawful conspiracy to violate the Sherman Act. That conspiracy existed as long as the illegal agreements remained in existence.[1] And the agreements could and did continue to exist whether or not its inseparable parts,[2] such as the price-fixing provisions, were enforced from time to time. Any attempt to enforce directly or indirectly any part of the illegal agreements shows that the agreements and the conspiracy were still in existence. The present holding clearly indicates their continuing existence during the period in question. The majority appears to recognize the coexistence of the lic[illegible]greements and the conspiracy when it bars a recovery for the use of the patents so long as the suits are for "royalties" under the contracts. But under the Court's holding persons who misuse their patents hereafter, and who could not, under our prior cases, recover compensation for patent use because of their illegal agreements, may now, in some instances, be able to recover full compensation by labeling their causes of action "indebitatus assumpsit" or "quantum meruit." To permit a Sherman Act conspirator to recover for patent use under any label from a co-conspirator

---

[1] "It is the 'contract, combination . . . or conspiracy in restraint of trade or commerce' which § 1 of the Act strikes down, whether the concerted activity be wholly nascent or abortive on the one hand, or successful on the other." *United States* v. *Socony-Vacuum Oil Co.*, 310 U. S. 150, 225.

[2] *MacGregor* v. *Westinghouse Electric & Mfg. Co.*, 329 U. S. 402, 407.

where the licensing agreement for that patent was held void as an integral part of the conspiracy runs counter to the doctrine of "unclean hands." That doctrine rests basically on the idea that the law leaves wrong-doers where it finds them. The Court does not do so here. Appellant and appellees have been found guilty of an unlawful conspiracy to violate the Sherman Act. Gypsum's patents were an essential part of that conspiracy. But by giving its lawsuits appropriate labels it has obtained an opportunity to seek compensation for the use of tools it supplied to violate the law. I agree with the District Court that to allow recovery on these differently labeled counts "is but a left-handed, indirect method for recovering the royalties provided in the illegal license agreements." As I see it this permits "a licensor to be protected on an illegal contract merely because he chose one remedy rather than another on the same substantive issue." *Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394, 399–400. I think the Court's holding seriously weakens the patent misuse doctrine and thereby makes enforcement of the Sherman Act far more difficult.[3]

[3] Some of the cases in which courts have utilized the doctrine to break up illegal combinations and practice are *Morton Salt Co.* v. *G. S. Suppinger Co.*, 314 U. S. 488; *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495; *United States* v. *National Lead Co.*, 332 U. S. 319; *Hartford-Empire Co.* v. *United States*, 324 U. S. 570.